

PACKARD MOTOR CAR COMPANY
DETROIT 32, MICHIGAN

July 9, 1954.

To Packard Shareholders:

By now you undoubtedly have heard the news about Packard and Studebaker.

Your Company has executed an agreement with The Studebaker Corporation by which Packard will purchase all the Studebaker property and assets in exchange for shares of Packard common stock and the assumption of all of the Studebaker liabilities. With your approval, the name of the Company will be changed to Studebaker-Packard Corporation.

Your officers and directors have proceeded only after due consideration and careful study. Among the factors taken into consideration in arriving at the terms of the Purchase Agreement were the financial history of both Packard and Studebaker, including sales volume, earnings records and potentials, dividends, properties and book values, and the market prices of their respective stocks. Data with respect to each of these factors is set forth under **COMPARATIVE DATA** in the attached Proxy Statement.

When the purchase is completed, the present Packard shareholders will hold 2,898,268 shares of the new Packard common stock, and The Studebaker Corporation will hold 3,542,187 shares of such stock. This decision was determined only after a long period of negotiations between the Companies. In reaching the conclusion, each of the factors listed above was given due weight and the advice and recommendations of the securities firm of Cyrus J. Lawrence & Sons and of the investment banking firms of Lehman Brothers, Kuhn, Loeb & Co. and Glore, Forgan & Co. were considered.

Proposals in connection with this transaction are being presented for your approval at a Special Meeting of Shareholders to be held on August 17, 1954. Enclosed herewith is the Notice of the Special Meeting, together with the Proxy Statement setting forth the details of the transaction and proposals and a Proxy for your use in voting. We earnestly hope that you will study these papers carefully and vote in favor of all the proposals submitted to you.

A short explanation may be helpful with regard to the reclassification of the present Packard common stock contemplated in Proposal A. Quite apart from the acquisition of the Studebaker properties and assets, the reclassification is deemed desirable since it will reduce the unusually large number of shares of issued Packard stock by providing that each five shares of the no par value Packard common stock, each share of which represents \$2 of the capital of the Company, presently issued, will be changed into one share of new common stock with a par value of \$10 per share. Thus, the 15,000,000 shares of Packard common stock presently issued will be reduced to 3,000,000 shares, of which 2,898,268 will be outstanding and owned by Packard shareholders and the balance held as treasury stock. As mentioned above it is believed highly desirable to effect this reduction in the number of shares outstanding. After this is done, it is proposed to issue 3,542,187 shares of the new stock to Studebaker for its properties and assets.

Your directors and management believe that the proposed arrangements will place both Packard and Studebaker products in a strengthened competitive position in the automotive market of the future. We are confident that it presents an unusual opportunity for Studebaker-Packard to increase service to the public and dealers. We believe that Studebaker-Packard will enhance its position in an industry to which both Packard and Studebaker have made such notable contributions.

You will recall that we outlined to you in our Annual Report for 1953 the first step of the Packard program for revitalization of the Company, which encompassed the establishment of a new facility for engine, automatic

transmission and rear axle manufacture in our Utica Plant. Recently we have completed negotiations for leasing, with option to buy, the body plant where Packard bodies have been manufactured since 1941. Beginning the first of this month we started to manufacture our own automobile bodies. With the necessary rearrangement and moving of facilities, which we expect to complete by the end of this year, the Packard program for modernization of its facilities will have been substantially accomplished. Each of these steps has been taken only after careful consideration of their desirability in any possible expansion of your Company's business.

In our judgment this is the time for a move which will bring the Company's market coverage into line with the pattern followed by the larger and more successful companies in the industry. The proposed transaction with Studebaker will create the fourth full-line enterprise in the industry, offering a line of cars from the Studebaker Champion in the low-price field to luxury Packards in the high-price field, as well as a line of trucks appealing to about 85% of the truck market. Thus, Studebaker-Packard will provide a full line of cars which are essentially complementary and non-competitive with each other. The benefits of such a full line of cars are obvious in the advantages to dealers, to your Company's sales potential and for service to the buying public.

The present manufacturing and operating facilities of Packard and Studebaker also complement each other to a considerable degree. Both Packard and Studebaker will be manufacturing V-8 engines for their 1955 lines of cars. The engines are of such sizes that there is no overlapping, and offer as complete a range of V-8 engines as are available in the industry today. Packard manufactures several items which Studebaker presently purchases from suppliers. Correspondingly, Studebaker has modern facilities for the production of certain automobile components which Packard today obtains from outside sources.

Our studies indicate that many important savings in manufacturing costs and expenses can be obtained in putting the personnel and physical facilities under a unified management. A considerable portion of the estimated savings are derived from an appraisal of the effect of combining certain productive facilities, of greater use of common parts and tooling and of combination of many operating functions now performed individually by both companies. Substantial advantages should also accrue through lower costs in the field of research, engineering and design.

We believe that the results of this transaction will bring greater benefits to the Company from its promotion, advertising and public relations activities, especially as public acceptance of Studebaker-Packard as a strong entity in the automotive field will lend additional strength to the promotion of its individual products.

Your Company should be better situated to expand the position of both Packard and Studebaker in the important area of production of defense business. Each has enjoyed an enviable reputation as a supplier of products for the armed forces.

For these reasons and because of its strong belief that the proposed transaction with Studebaker will mark a significant step forward in the history of Packard Motor Car Company and will prove to be in the best interests of the shareholders, your Board of Directors strongly recommends that you vote in favor of the proposals and for the election of the 8 additional directors.

The attached Proxy must be signed by you and returned promptly in order for it to be voted at the Special Meeting. An addressed envelope requiring no postage if mailed in the United States is enclosed for your convenience in returning the completed Proxy. Please do this now.

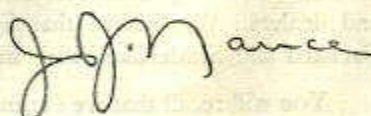
Sincerely yours,

HUGH J. FERRY

JAMES J. NANCE



Chairman of the Board



President

PACKARD MOTOR CAR COMPANY

DETROIT, MICHIGAN

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

August 17, 1954

To the Shareholders of

PACKARD MOTOR CAR COMPANY.

Notice is hereby given that a Special Meeting of Shareholders of this Company will be held on Tuesday, August 17, 1954, at 9:00 A.M., Eastern Standard Time, at the office of the Company, 1580 East Grand Boulevard, Detroit, Michigan, for the following purposes:

A. To take action on a proposal to amend Articles II and IV of the Articles of Incorporation of the Company, to read substantially as set forth in Exhibit A to the attached Proxy Statement, in order

(i) to broaden the objects and purposes of the Company;

(ii) to provide that the capital stock of the Company shall consist solely of 15,000,000 shares of a new class of common stock with a par value of \$10 per share (herein referred to as "New Common Stock") and to reclassify the 15,000,000 shares of presently authorized and issued common stock, without par value, into 3,000,000 shares of New Common Stock (on the basis of 5 shares for 1); and

(iii) to define the pre-emptive rights of all shareholders as rights to purchase pro rata shares of New Common Stock issued for cash only, except the 400,000 shares of New Common Stock reserved for issuance to officers and employees;

B. To take action on a proposal to authorize the Board of Directors of the Company to adopt such plan or plans, including the granting of stock options, for the sale of up to 400,000 shares of New Common Stock of the Company to officers and employees of the Company as said Board shall deem necessary or desirable, provided that in no case shall the purchase price of such shares be less than 95% of their fair market value at the time of sale, or, in the case of an option, at the time of granting the option;

C. To take action on a proposal to amend Article I of the Articles of Incorporation of the Company, to read substantially as set forth in Exhibit B to the attached Proxy Statement, in order to change the name of the Company to "Studebaker-Packard Corporation", such amendment to be made effective only upon the acquisition by the Company of the properties and assets of The Studebaker Corporation as set forth in Proposal D;

D. To take action on a proposal to approve the issuance of 3,542,187 shares of New Common Stock to The Studebaker Corporation and the assumption by the Company of the liabilities of Studebaker in consideration of the purchase by Packard of the Studebaker properties and assets, all as set forth in the Purchase Agreement described in the attached Proxy Statement;

E. To elect 8 directors of the Company to serve, from the closing under the Purchase Agreement referred to in Proposal D, with 7 present members of the Board of Directors until the next Annual Meeting of Shareholders and until their successors have been duly elected;

and to transact such other business as may properly come before the meeting.

The Board of Directors has fixed 3:00 P.M., Eastern Standard Time, on July 9, 1954, as the record date for the determination of shareholders entitled to notice of, and to vote at, the Special Meeting.

In order that your stock may be represented at the meeting in case you are not personally present, please read the annexed Proxy Statement, fill in and sign the enclosed form of Proxy and return it to the undersigned.

By order of the Chairman of the Board of Directors,

Robert Blythin, Secretary

Dated: Detroit, Michigan
July 9, 1954.

IMPORTANT

You are one of approximately 100,000 shareholders who own Packard Motor Car Company. Approximately 85,000 shareholders own less than 200 shares. Your representation, regardless of the amount of your holdings, is most important in order to assure a quorum at the Special Meeting and the carrying out of the foregoing proposals and the election of directors, as described in the attached Proxy Statement. You are, therefore, earnestly requested to complete and mail your Proxy promptly.

PACKARD MOTOR CAR COMPANY

PACKARD MOTOR CAR COMPANY

DETROIT, MICHIGAN

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PACKARD MOTOR CAR COMPANY
DETROIT, MICHIGAN

PROXY STATEMENT FOR SPECIAL MEETING OF SHAREHOLDERS

August 17, 1954

This statement is furnished the shareholders in connection with the solicitation by the management of proxies in the form enclosed to be used at a Special Meeting of Shareholders of Packard Motor Car Company to be held at the Office of the Company, 1580 East Grand Boulevard, Detroit, Michigan, on Tuesday, August 17, 1954, and at all adjournments of such meeting, for the purposes set forth in the accompanying Notice of Meeting.

The Special Meeting has been called to take action upon the proposals set forth in the Notice of Meeting. Favorable action by shareholders on Proposals C and D and the election of 8 additional directors (E) is required in order that the Company may carry out the terms of the Purchase Agreement for the acquisition by the Company of the properties and assets of The Studebaker Corporation, described in detail below. Proposals A and B, while necessary to the carrying out of the terms of the Purchase Agreement, are considered by the Board of Directors of the Company to be desirable and in the best interests of the Company and its shareholders, wholly apart from such agreement, and are to become effective, irrespective of the acquisition of the properties and assets of Studebaker under the Purchase Agreement.

ACQUISITION OF THE PROPERTIES AND ASSETS OF STUDEBAKER

After long and careful consideration the Board of Directors of Packard has unanimously approved a proposal to acquire the properties and assets of The Studebaker Corporation. It is the considered judgment of the Board of Directors of Packard that this will promote the interests of both Packard and its shareholders and be the next logical step in the revitalization program of Packard. To that end, Packard has entered into a Purchase Agreement with Studebaker providing for the purchase by the Company of the properties and assets of Studebaker.

The purpose of the foregoing proposal is to advance the interests of Packard's shareholders by presenting a strengthened organization in this highly competitive industry with a broadened line of products, lower unit costs and a combination of successful managerial talent.

The terms of the proposed acquisition, including the amount of Packard stock to be issued to Studebaker were determined by extensive negotiations between the two companies. Among the factors taken into consideration were market prices of the stocks of the two companies, book values of their stocks, sales volume potential of each and their current and past demonstrated earning powers.

The proposed acquisition will bring together two of the oldest and most respected names in the automobile industry. The businesses of Packard and Studebaker will complement one another, since Packards and Packard Clippers sell in the upper-medium and high-price ranges, while Studebaker Champions, Commanders and other models sell in the low and medium price ranges. Studebaker-Packard would also manufacture and sell Studebaker trucks, and, it is believed, would be well qualified for consideration by the Government

in the awarding of additional defense business. It is believed that Studebaker-Packard, because of its combined financial and other resources, would be in a better position to diversify its products in various ways including the acquisition of other businesses.

It is expected that the proposed acquisition will result in substantial direct cost savings in the manufacture of vehicles through integration of facilities, unification of management and standardization of parts. For instance, Packard manufactures its own automatic transmissions and its production facilities could be expanded to cover Studebaker transmissions. Studebaker's Los Angeles, California, assembly plant could be expanded to accommodate assembly of Packard vehicles for West Coast requirements; Packard currently ships completed cars from Detroit to the West Coast with consequent high freight costs. The Studebaker assembly plant in New Brunswick, New Jersey, has since its completion been used exclusively for defense production work; the combined volumes of Studebaker and Packard might well justify investment in assembly facilities at this location in order to realize substantial freight savings in marketing cars in the Eastern area. In addition, opportunities exist for standardization in certain parts, assemblies and components. It is also believed that the per unit cost of both lines of cars could be reduced by savings in tooling costs on new designs, integration of engineering and design work, and combination of the general and administrative staffs of both companies.

With respect to distribution, a limited policy of dual dealerships, where one dealer handles both Studebaker and Packard lines would increase market coverage. Packard and Studebaker cars would be distributed through Packard or Studebaker dealers in localities where a single dealership has not been economically feasible. Also, a combined Studebaker and Packard line might well justify the opening of new dealerships in areas where neither company now maintains dealers because of insufficient volume potential.

Purchase Agreement

The terms of the proposed acquisition are set forth in the Purchase Agreement between Packard and Studebaker, dated June 22, 1954. Copies of the Purchase Agreement are available for inspection by any shareholder at the office of the Company at 1580 East Grand Boulevard, Detroit, Michigan, and at Guaranty Trust Company of New York, 140 Broadway, New York, New York. In addition, a copy will be sent to any shareholder upon request directed to either of the aforementioned addresses.

Packard will purchase Studebaker's properties and assets, will assume Studebaker's liabilities and will issue to Studebaker 3,542,187 shares of a new class of Packard common stock, Packard first having reclassified its presently-issued Common Stock into shares of such new class (herein referred to as "New Common Stock"). The assumed liabilities include Studebaker's \$7,500,000 of 3½% Sinking Fund Debentures Due December 1, 1966 (described below under "Debt Arrangements").

Upon consummation of the acquisition, Packard will change its name to Studebaker-Packard Corporation. Eight of the present Studebaker directors will be added to an enlarged Board of Directors and certain officers of Studebaker will be added to top management. Mr. James J. Nance will continue as President and Chief Executive Officer of the Company, with the responsibility of the direction and supervision over the business and affairs of the Company, subject to the Board of Directors. Mr. Paul Hoffman, now Chairman of the Board of Studebaker, will become Chairman of the Board, and Mr. Harold S. Vance, now President of Studebaker, will become Chairman of the Executive Committee of Studebaker-Packard. It is contemplated that other officers and employees of Packard and Studebaker will be elected or appointed as officers or to other appropriate positions in the management of Studebaker-Packard.

The Purchase Agreement provides that the obligations of each of the parties to close the transaction are subject to various conditions, including, among others, conditions relating to opinions of counsel, the correctness at the closing date of the representations and warranties of the other party, the performance by such other party of the terms and conditions to be performed by it and the absence of any changes (other than operating losses) in the business, property or financial condition of such other party which shall have had a materially adverse effect on the value of its business, the listing of the Packard New Common Stock on the New York Stock Exchange and the Detroit Stock Exchange and, if necessary, the registration of such stock under the Securities Exchange Act of 1934, the receipt by Studebaker and Packard of rulings from the Commissioner of

Internal Revenue to the effect outlined below under the caption "Tax Status", the modification to the satisfaction of the parties of present borrowing arrangements, and the condition that neither party shall have been notified by the United States Department of Justice or the Federal Trade Commission that legal proceedings adverse to the transaction are contemplated under the anti-trust laws of the United States.

The Purchase Agreement may be modified by agreement of the parties prior to the closing thereunder and any of the conditions thereof may be waived by either party. Either Packard or Studebaker, by action of its Board of Directors, may abandon and terminate the Purchase Agreement at any time prior to the taking of action thereon by its shareholders. The Purchase Agreement further provides that Packard and Studebaker may, by mutual consent of their respective Boards of Directors, abandon and terminate the Purchase Agreement at any time prior to the closing.

ACTION TO BE TAKEN AT THE SPECIAL MEETING

There follows a description of the proposals which are submitted for shareholder action at the Special Meeting, including a statement as to the vote required for adoption in each case. For the reasons stated above, the Board of Directors and management of Packard recommend to all Packard shareholders that they vote in favor of all proposals and for the election of eight additional directors.

Proposal A: To amend Articles II and IV of the Company's Articles of Incorporation

Both to facilitate the proposed acquisition of the Studebaker properties and assets and for other corporate reasons, it is proposed to amend the Articles of Incorporation of Packard in certain respects. The amendment is embodied in Articles II and IV of the proposed Certificate of Amendment, which is set forth in full in Exhibit A attached to this Proxy Statement. The effect of the amendment is to broaden the Company's corporate powers and purposes, create a new class of common stock and convert the present shares of Packard common stock into shares of such new class, define the pre-emptive rights of shareholders to purchase shares of such new class and release certain shares from all pre-emptive rights. The laws of the State of Michigan provide that in order to become effective, the amendment must be approved by the affirmative vote of the holders of at least two-thirds of the Packard common stock entitled to vote.

Broadening of the Company's Corporate Purposes

The corporate purposes presently contained in the Packard Articles of Incorporation might well be construed as limiting the business of the Company to the manufacture and sale of products in the field of land, water and aerial transportation. Particularly with the acquisition of the Studebaker properties and assets, it may be desirable to enable the Company to expand its operations through the addition or acquisition of other types of businesses.

Change in the Company's Capital Stock

The amendment to Article IV as set forth substantially in Exhibit A is necessary in order that the Company may be in a position to issue the 3,542,187 shares of New Common Stock to Studebaker as provided in the Purchase Agreement. In addition, and wholly apart from the purchase of the Studebaker properties and assets, the amendment seems desirable in order to reduce the unusually large number of presently outstanding shares and to provide for a capital stock with a par value of \$10 per share rather than stock of no par value each share of which represents \$2 of the capital of the Company. The amendment creates a new class of common stock (New Common Stock) with a par value of \$10 per share and modified pre-emptive rights, as described below, and provides that this new class shall be the sole capital stock of the Company. By reclassification on the basis of 5 shares of present Packard common stock without par value for 1 share of stock of the new class, the amendment will reduce the number of shares of Packard common stock which are presently issued. When the amendment becomes effective, the only authorized capital stock of the Company will be the 15,000,000 shares of New Common Stock.

The following table shows the present Packard capital stock and the New Common Stock, giving effect to the amendment and to the issuance of the shares to Studebaker in accordance with the Purchase Agreement:

<u>Common Stock</u>	<u>Before Change in Capital Stock</u>	<u>After Change in Capital Stock</u>
	<u>Shares (without par value) (a)</u>	<u>Shares of New Common Stock (par value \$10 per share)</u>
AUTHORIZED	25,000,000	15,000,000
ISSUED AND HELD IN TREASURY	508,660 (b)	101,732 (b)
ISSUED AND OUTSTANDING:		
To Present Packard Shareholders	14,491,340	2,898,268
To Studebaker (for properties and assets)	—	3,542,187 (c)
Total Outstanding	14,491,340	6,440,455
AUTHORIZED BUT UNISSUED	10,000,000	8,457,813 (d)

NOTES:

(a) The shareholders, at the Annual Meeting on April 19, 1954, authorized an amendment to the Articles of Incorporation changing the present Common Stock from no par to a par value of \$2.00 per share. The certificate to carry out the approved amendment has not been filed with the Michigan Corporation and Securities Commission, and the action of the shareholders at the Special Meeting in authorizing the amendment substantially as set forth in Exhibit A will supersede the action taken at the Annual Meeting.

(b) Of the 508,660 shares held in the Packard Treasury, 377,500 are reserved for issuance under stock options granted to officers and employees of Packard. Of the 101,732 shares of New Common Stock which will be held in the Treasury, 75,500 shares will be reserved for issuance under such stock options.

(c) On July 1, 1954, Studebaker had 2,361,458 shares of common stock with a par value of \$1.00 per share issued and outstanding.

(d) If favorable action is taken on Proposal B, 400,000 of these shares will be reserved for issuance to officers and employees.

There is no present plan for the issuance of the 8,457,813 shares of authorized but unissued New Common Stock, except for the reservation of 400,000 shares as stated in Note (d). Authorization of these shares, however, will provide means for such additional acquisitions of property as the Board of Directors may deem advisable without further action by the shareholders and for such future financing as the Board of Directors may deem advisable, subject, however, to the pre-emptive rights of shareholders as defined in Exhibit A.

Fractional shares will not be issued to Packard shareholders in connection with the reclassification of the 14,491,340 shares issued and outstanding. In lieu thereof, scrip certificates (the terms and conditions of which have not yet been determined) representing fractional shares exchangeable in amounts, aggregating full shares, for full-share New Common Stock certificates, will be issued. Such right of exchange may expire on a date not earlier than two years after the issuance of the scrip certificates, at which time the New Common Stock theretofore deliverable for such scrip certificates would be sold and the proceeds held for the account of holders of the scrip certificates; also, the scrip certificates may become void for all purposes at a date not earlier than six years after the issuance thereof.

Modification of Pre-emptive Rights

The Articles of Incorporation of the Company presently provide that, before issuing the authorized but unissued shares of present Common Stock, such shares must be offered to the shareholders of the Company for subscription pro rata in accordance with their holdings. These rights of shareholders known as "pre-emptive rights" will be modified by the amendment of Article IV of the Articles of Incorporation (as set forth in Exhibit A) to limit the rights to issues by the Company of authorized but unissued New Common Stock for cash only. Accordingly, any issue of shares for assets or property, as in the case of the proposed acquisition of the Studebaker properties and assets, will not be subject to pre-emptive rights, even though cash is included among the assets. The amendment also releases all pre-emptive rights with respect to the 400,000 shares reserved for issuance to officers and employees of the Company under stock option and other plans (Proposal B).

Proposal B: To authorize the Board of Directors of the Company to adopt a plan or plans, including the granting of stock options, for the sale of up to 400,000 shares of New Common Stock of the Company to officers and other employees of the Company.

Under the terms of the Purchase Agreement, one of the actions to be taken by the Packard shareholders at their Special Meeting is the granting of authority to the Board of Directors to adopt a plan or plans for

the sale to officers and other employees of up to 400,000 shares of authorized but unissued New Common Stock. If favorable action be taken on Proposal A, these shares of New Common Stock will be released from pre-emptive rights.

The purchase price in no case is to be less than 95% of the fair market value of the stock at the time of sale, or in the case of an option, at the time of the granting of the option. The Board of Directors has not formulated any definite proposals with respect to these 400,000 shares. If and when any such options are granted (or any stock purchase or other stock plan for officers and key employees is formulated) the purpose will be to provide an additional incentive to the recipients to continue in the Company's employment and to give to them the proprietary interest of shareholders in its success.

It is to be noted that Packard has outstanding stock options calling in the aggregate for the sale of 377,500 present Packard shares of common stock held in the treasury at prices averaging about \$5.00 per share (or 75,500 shares after the proposed reclassification on a 5-for-1 basis at a price of \$25.00 per share). These options, being obligations of Packard, will not be affected by the acquisition of the Studebaker properties and assets. The option prices of the presently outstanding Packard options are considerably in excess of current market quotations for the stock covered by the options.

Studebaker has options now outstanding under Studebaker's Restricted Stock Option Plan for Key Employees covering 102,000 shares of authorized and unissued Studebaker stock at an option price of \$32.50 per share. As in the case of Packard, the option price is high in relation to the present market value of the stock.

It is not contemplated that any specific provision will be made at the closing under the Purchase Agreement with respect to the outstanding Studebaker stock options, described above. However, the Board of Directors may decide, dependent on the circumstances, to make these options applicable in the aggregate to up to 153,000 shares of New Common Stock (at the rate of $1\frac{1}{2}$ shares of New Common Stock for each one share of presently optioned Studebaker stock), and to reserve for that purpose 153,000 of the above-mentioned 400,000 shares (which options would permit the purchase of shares of New Common Stock at a price of \$21.67 per share).

In view of this general situation, it is to be expected that the Board of Directors may formulate a plan or plans to replace the Packard and Studebaker options with options for New Common Stock on a more realistic basis, or grant additional options, the option price, however, not to be less than 95% of the fair market value at the time of the granting of the options. Any such new options would be limited to cover 400,000 shares or less and would, presumably, meet the requirements of the Internal Revenue Code as to restricted stock options so that the favorable tax treatment afforded thereby would be available. In any event, the purpose in granting any such options (or formulating stock purchase or other stock plans for officers and key employees) would be to provide an additional incentive to the recipients to continue in the employment of the Company and to give to them the proprietary interest of shareholders in the success of Studebaker-Packard.

Although under Michigan law the Board of Directors has power, without approval of shareholders, to adopt plans, including the granting of stock options, for the sale of shares of stock to officers and employees of the Company (assuming that the release of pre-emptive rights contemplated under Proposal A is approved), the Directors have determined as a matter of policy not to take such steps unless authority to adopt such plans and to grant stock options is approved by the holders of at least a majority of the outstanding shares of Packard common stock entitled to vote. The management does not intend to carry out Proposal B if it is not so approved by the shareholders.

Counsel for Packard has advised that, under Section 130A of the Federal Internal Revenue Code, if the purchase price is at least 95% of the fair market value at the time of the granting of a stock purchase option and if the employee holds the shares for at least six months from the date of purchase and two years from the granting of the option, no income will be realized by the employee on such purchase and, on the subsequent sale of such stock, any amount realized by him in excess of the option price will be taxed to him as a long-term capital gain and any loss sustained by him will be a long-term capital loss; and no deduction for Federal income tax purposes will be allowable at any time to the employer corporation with respect to such shares of stock. The Board of Directors, in authorizing future stock options, may restrict them so as to meet the requirements of Section 130A or similar provisions of future Federal tax laws.

Proposal C: To amend Article I of the Company's Articles of Incorporation.

One of the terms of the Purchase Agreement is that the name Packard Motor Car Company be changed to "Studebaker-Packard Corporation." The change is embodied in the proposed Certificate of Amendment annexed as Exhibit B. If for any reason the proposed purchase of Studebaker properties and assets is not consummated, the change of name will not be carried out.

The Purchase Agreement requires that this Proposal be approved by the affirmative vote of the holders of at least two-thirds of the Packard common stock entitled to vote. The Board of Directors has determined as a matter of policy that they will not carry out this amendment unless such vote is obtained, even though the laws of the State of Michigan require only the vote of a majority of such shareholders in order for the amendment to become effective.

Proposal D: To approve the issuance of 3,542,187 shares of New Common Stock to The Studebaker Corporation and the assumption by the Company of the liabilities of Studebaker.

The Purchase Agreement provides that the Company, in consideration of the purchase of the properties and assets of Studebaker, will issue to Studebaker 3,542,187 shares of New Common Stock and will assume the liabilities of Studebaker. Although under Michigan law the Board of Directors has power, without the approval of shareholders, to issue stock of the Company for assets or otherwise (assuming that the modifications of pre-emptive rights contemplated under Proposal A are approved), the Directors have determined as a matter of policy not to issue such shares for the Studebaker business and assets unless such issuance is approved by the holders of at least a majority of the outstanding shares of Packard common stock entitled to vote.

Election of Directors

It is a condition of the Purchase Agreement that the Board of Directors of Packard be enlarged from eight to fifteen members. In compliance with this condition, the Board of Directors of Packard, on June 22, 1954, amended the By-Laws of the Company to increase the size of the Board from eight to fifteen members, such amendment to become effective on August 16, 1954, immediately prior to the shareholders meeting and upon the condition that such amendment shall become null and void should the closing under the Purchase Agreement not take place. All of the members of the Packard Board, elected at the 1954 Annual Meeting, will continue to serve with the exception of Mr. J. G. Vincent, who has recently resigned, after many years of outstanding service to the Company. The shareholders are being asked to elect eight additional directors, all of whom are presently serving as Directors of Studebaker, and who have been nominated in accordance with the terms of the Purchase Agreement. Information with respect to the eight nominees is set forth under "Directors and Management". Each of the fifteen members of the enlarged Board of Directors will serve until the next annual meeting of shareholders and until his successor has been duly elected. The terms of the eight nominees, however, will commence simultaneously with the closing under the Purchase Agreement.

DEBT ARRANGEMENTS

Studebaker presently has outstanding \$7,500,000 of 3½% Sinking Fund Debentures Due December 1, 1966. In addition, it has a revolving credit agreement permitting bank borrowings up to \$25,000,000 for a period of somewhat more than 2 years. Packard has no debt outstanding, although it has a similar revolving credit agreement in the amount of \$20,000,000 for about the same period. Packard also has obtained a commitment from an institutional lender which has agreed, subject to the working out of the precise terms and conditions, to lend to the Company on or before December 15, 1954, whether or not it purchases the assets of Studebaker, up to \$9,000,000 to be evidenced by 15-year 4¼% Mortgage Notes secured by a first mortgage lien on a substantial portion of presently owned Packard properties.

It is a condition to the carrying out of the Purchase Agreement that satisfactory arrangements be made for the carrying over to Studebaker-Packard of the \$7,500,000 of 3½% Sinking Fund Debentures and the Studebaker \$25,000,000 revolving credit agreement; similarly, it is a condition that the present Packard revolving credit agreement remain available. The instruments providing for these borrowings contain restrictions or covenants as to the payment of dividends, maintenance of working capital, creation of additional debt, creation of liens and other matters.

It may be that the satisfactory arrangements referred to above will be effected through a consolidation of the Studebaker 3½% Sinking Fund Debentures and the commitment with respect to the 4¾% Mortgage Notes into a new form of borrowing and commitment to lend; similarly, the present Studebaker and Packard revolving credit agreements may be consolidated into a single agreement. In any event, Studebaker-Packard will be subject to restrictions or covenants as to matters now covered by the various borrowing instruments to which each company is a party modified to take into account the effect of the proposed transactions, or new restrictions and covenants.

The 3½% Sinking Fund Debentures

The 3½% Sinking Fund Debentures, Due December 1, 1966, hereinafter called the "Debentures") were issued pursuant to an Indenture, dated as of December 1, 1946, between Studebaker and The Chase National Bank of the City of New York, as Trustee. The original issue of the Debentures was in the amount of \$15,000,000, all of which was purchased equally by two insurance companies.

Studebaker has redeemed one-half of the Debentures through the operation of the Sinking Fund and otherwise, leaving \$7,500,000 of Debentures presently outstanding. On November 30, 1954 and on each November 30th thereafter, Studebaker will be required to redeem, under the Sinking Fund, \$750,000 of Debentures. Packard will assume this obligation if the purchase of assets is consummated.

Under the Indenture, Studebaker has the right to redeem all or any part of the Debentures (apart from the mandatory operation of the Sinking Fund) by paying the premium specified in the Indenture together with accumulated interest. For the balance of 1954, the voluntary redemption price will be 102; this redemption price decreases each year as provided in the Indenture until it reaches 100 in 1965.

The Indenture provides for certain restrictions on the actions of Studebaker while the Debentures are outstanding, which restrictions may be waived by the holders of not less than two-thirds in principal amount of the then outstanding Debentures. Included are restrictions with respect to the declaration of dividends, the creation of liens by Studebaker on its properties and other similar matters.

Revolving Bank Credit

On November 16, 1953, Studebaker executed a Credit Agreement with a group of fifteen banks providing a revolving banking commitment of \$25,000,000 for a period of three years (to November 30, 1956). Studebaker is entitled to borrow under the credit agreement at an interest rate equal to the then prime commercial rate. Studebaker agreed to pay a commitment fee at the rate of one-half of one percent per annum on unused portions of the commitment.

The Credit Agreement contains certain restrictions on Studebaker, including a covenant that it maintain a minimum working capital of at least \$30,000,000.

COMPARATIVE DATA

Set forth below are summaries of various operating and financial results, as well as stock market prices and book valuations, of Packard and Studebaker over the last 7 years including the first 4 months of 1954. The data for each company is also shown on a combined basis. It is to be noted that this period, except from 1953 on, was one in which post-World War II demand for passenger cars was such that all cars that could be produced could be sold. In addition, during the last six months of 1951 and all of 1952, output of all automobile manufacturers was regulated by NPA on a quota system. 1952 and 1953 were years of substantial government business for both companies which very favorably affected not only sales volume but also profits. Attention is also directed to the fact that, as illustrated by 1953 results and particularly 1954 results to date, conditions in the automobile industry have changed drastically. Accordingly, this comparative data must be accepted solely as a summary record of results in the past which should in no way be taken as indicative of future prospects.

Sales Volume

The unit sales of cars, the percentage of all passenger cars sold in the United States (per statistics of Automobile Manufacturers' Association), the unit sales of trucks, the total sales of passenger cars and trucks and

net sales and other income from all sources, including sales to the United States Government, of both companies during the years 1947-1953 and the first four months of 1954 were:

PACKARD (consolidated)

Year	Passenger Cars			Total	Net Sales and Other Income
	Units	% of U. S. Market	Trucks		
1947.....	55,098	1.5	—	55,098	\$139,259,165
1948.....	97,519	2.5	—	97,519	233,162,258
1949.....	101,738	2.1	—	101,738	214,169,118
1950.....	76,832	1.1	—	76,832	174,415,663
1951.....	70,548	1.4	—	70,548	179,550,724
1952.....	67,603	1.4	—	67,603	234,538,343
1953.....	75,407	1.3	—	75,407	336,617,075
1954 (4 mos.).....	16,900	.9	—	16,900	71,933,299

STUDEBAKER (consolidated)

Year	Passenger Cars			Total	Net Sales and Other Income
	Units	% of U. S. Market	Trucks		
1947.....	123,626	3.2	67,905	191,531	\$267,998,838
1948.....	165,822	4.0	67,635	233,457	384,182,518
1949.....	239,491	4.4	65,503	304,994	473,706,100
1950.....	282,267	4.0	52,287	334,554	478,066,928
1951.....	233,105	4.2	52,145	285,250	504,012,530
1952.....	172,805	3.7	60,393	233,198	586,117,763
1953.....	190,857	2.9	32,441	223,298	595,080,870
1954 (4 mos.).....	31,756	1.4	5,293	37,049	92,452,922

TOTAL PACKARD AND STUDEBAKER (consolidated)

Year	Passenger Cars			Total	Net Sales and Other Income
	Units	% of U. S. Market	Trucks		
1947.....	178,724	4.7	67,905	246,629	\$407,258,003
1948.....	263,341	6.5	67,635	330,976	617,344,776
1949.....	341,229	6.5	65,503	406,732	687,875,218
1950.....	359,099	5.1	52,287	411,386	652,482,591
1951.....	303,653	5.6	52,145	355,798	683,563,254
1952.....	240,408	5.1	60,393	300,801	820,656,106
1953.....	266,264	4.2	32,441	298,705	931,697,945
1954 (4 mos.).....	48,656	2.3	5,293	53,949	164,386,221

Earnings

The following summaries present the net sales and other income, income before taxes, provision for income taxes, net income and amounts earned and paid as dividends per share, for the periods indicated. The summaries for the years 1951, 1952 and 1953, and the first four months of 1954 should be read in conjunction with the financial statements of the two companies listed on page F-1.

PACKARD (consolidated)

Year	Net Sales and Other Income	Income before Taxes	Provision for Income Taxes	Net Income	Net Income Per Share on Present Common Stock	Net Income Per Share on New Common Stock (2)	Dividends Paid Per Share
1947.....	\$139,259,165	\$ 12,009(1)	\$(1,088,682)	\$ 1,100,691	\$.07	\$.37	\$.15
1948.....	233,162,258	24,789,439	9,680,000	15,109,439	1.01	5.07	.35
1949.....	214,169,118	13,406,042	5,700,000	7,706,042	.52	2.59	.50
1950.....	174,415,663	7,612,348	2,450,000	5,162,348	.35	1.73	—
1951.....	179,550,724	11,094,060	5,500,000	5,594,060	.38	1.88	.30
1952.....	234,538,343	12,632,263	7,014,000	5,618,263	.39	1.94	.15
1953.....	336,617,075	12,440,966	7,000,000	5,440,966	.38	1.88	.20
1954 (4 mos.)....	71,933,299	(2,194,185)	(1,143,000)	(1,051,185)	(.07)	(.36)	—

(1) Excludes \$2,811,634 credited to surplus in 1947 covering reserves provided from operations in prior years. Parentheses used in the tables on this page indicate red figures.

(2) Computed on the basis of the 2,898,268 shares of New Common Stock outstanding after the proposed reclassification.

STUDEBAKER (consolidated)

Year	Net Sales and Other Income	Income before Taxes	Provision for Income Taxes	Net Income	Net Income Per Share	Dividends Paid Per Share
1947.....	\$267,998,838	\$15,002,103	\$ 5,875,000	\$ 9,127,103	\$ 3.87	\$.50
1948.....	384,182,518	32,314,972	13,200,000	19,114,972	8.11	1.75
1949.....	473,706,100	44,783,876	17,220,000	27,563,876	11.70	2.50
1950.....	478,066,928	39,131,829	16,625,000	22,506,829	9.55	3.35
1951.....	504,012,530	22,973,130	10,350,000	12,623,130	5.35	3.00
1952.....	586,117,763	29,121,789	14,830,000	14,291,789	6.05	3.00
1953.....	595,080,870	5,037,973	2,350,000	2,687,973	1.13	3.00
1954 (4 mos.)..	92,452,922	(11,564,511)	(1,870,000) (3)	(9,694,511) (3)	(4.11) (3)	.40

(3) The House of Representatives and The Senate have each passed a bill (H. R. 8300), to revise the Federal Internal Revenue Code, which bill provides for the carry-back of losses for two years instead of one as provided in the present Code. Assuming that the final Act shall so provide, these figures would be, respectively, (\$6,316,900), (\$5,247,611) and (\$2.22).

TOTAL PACKARD AND STUDEBAKER (consolidated)

Year	Net Sales and Other Income	Income before Taxes	Provision for Income Taxes	Net Income	Net Income Per Share of New Common Stock (4)
1947.....	\$407,258,003	\$15,014,112	\$ 4,786,318	\$10,227,794	\$1.59
1948.....	617,344,776	57,104,411	22,880,000	34,224,411	5.31
1949.....	687,875,218	58,189,918	22,920,000	35,269,918	5.48
1950.....	652,482,591	46,744,177	19,075,000	27,669,177	4.30
1951.....	683,563,254	34,067,190	15,850,000	18,217,190	2.83
1952.....	820,656,106	41,754,052	21,844,000	19,910,052	3.09
1953.....	931,697,945	17,478,939	9,350,000	8,128,939	1.26
1954 (4 mos.)	164,386,221	(13,758,696)	(3,013,000) (5)	(10,745,696) (5)	(1.67) (5)

(4) On the basis of 6,440,455 shares of Studebaker-Packard Common Stock outstanding.

(5) On the assumption that the carry-back provisions of the above-mentioned tax revision bill will become law, these figures would be, respectively, (\$7,459,900), (\$6,298,796) and (\$0.98).

Net sales and other income for the first four months of 1953 were for Studebaker \$230,651,423 and for Packard \$160,330,768; net income for that period for Studebaker \$539,193 and for Packard \$4,612,900. All adjustments necessary to state fairly the results of operations for the first four months of 1954 and of 1953 have been reflected herein.

Studebaker's net loss from operations for the month of May, 1954, was \$3,150,738* (as compared with a profit of \$1,147,226* for May, 1953); assuming enactment of the revision of the Code referred to above, after deduction of tax credits, it would be \$1,557,638.* The net loss for Packard after present carry-back tax credits is estimated at \$992,665* for the month of May (as compared with a profit of \$959,668* for May, 1953). It is not possible to predict the financial results of Studebaker-Packard, which results will depend largely on such factors as: continuation of present competitive conditions in which the "Big Three" have greatly increased their aggregate share of the passenger-car market and the shares of the "Independents", including Studebaker and Packard, have been sharply decreased; public acceptance of new passenger-car models to be brought out by all companies in the industry; effectiveness of such of the integration and other cost-saving plans as may be placed in effect by Studebaker-Packard; possible diversification of Studebaker-Packard into related and other fields; ability of Studebaker-Packard to increase its share of Government defense business; and general economic conditions.

Working Capital

The combined working capital of the two companies as of April 30, 1954, on a pro forma basis, would be about \$87,000,000 (the excess of current assets of approximately \$153,400,000 over current liabilities of about \$66,400,000), including approximately \$38,500,000 in cash and marketable securities. Although both companies are now suffering operating losses, which losses directly affect working capital, the loss carry-back provisions of the proposed revision of the Federal Internal Revenue Code referred to above would permit the recovery of Federal income taxes paid for two years back instead of one year as is now the case, and, accordingly, the effect of these losses on the combined working capital will be considerably reduced if the revised Code is enacted. If enacted, the combined working capital as of April 30, 1954, on a pro forma basis, would be about \$91,500,000. Working capital will also be affected by expenditures to complete Packard's modernization program (see "HISTORY, BUSINESS AND PROPERTIES OF PACKARD": "Current Developments") as well as tooling costs for new Packard and Studebaker models.

Market Prices

The high and low sales prices of the common stocks of Packard and Studebaker on the New York Stock Exchange for each quarterly period in 1952 and 1953, and for the first two quarters of 1954, were:

	Packard Common Stock		Studebaker Common Stock	
	High	Low	High	Low
1952—				
1st Quarter	4 $\frac{7}{8}$	4 $\frac{3}{8}$	38	31 $\frac{3}{4}$
2d Quarter	5 $\frac{3}{8}$	4 $\frac{1}{8}$	39 $\frac{1}{4}$	35 $\frac{1}{2}$
3d Quarter	5 $\frac{1}{8}$	4 $\frac{1}{2}$	38 $\frac{7}{8}$	35 $\frac{5}{8}$
4th Quarter	5 $\frac{5}{8}$	4 $\frac{1}{4}$	40 $\frac{3}{8}$	34 $\frac{7}{8}$
1953—				
1st Quarter	6 $\frac{3}{4}$	5 $\frac{3}{8}$	43 $\frac{1}{2}$	36 $\frac{1}{2}$
2d Quarter	6 $\frac{1}{8}$	5	38	30 $\frac{1}{4}$
3d Quarter	5 $\frac{1}{4}$	4	31 $\frac{3}{4}$	21 $\frac{5}{8}$
4th Quarter	4 $\frac{1}{4}$	3 $\frac{1}{2}$	26	20
1954—				
1st Quarter	4	3 $\frac{1}{2}$	23	18 $\frac{3}{8}$
2d Quarter	4 $\frac{3}{8}$	3 $\frac{1}{4}$	20 $\frac{1}{2}$	14 $\frac{1}{2}$

Book Values

The book values of the common stock of each company, meaning the excess of assets over liabilities as recorded in their respective books at the end of each year from 1947 through 1953 and at the end of the first

Parentheses used in the tables on this page indicate red figures.

* These figures include all adjustments necessary to state fairly the results for this month.

four months of 1954, were as follows, on an overall basis and on a per share basis, as well as combined. The book valuations as at December 31, 1953, and April 30, 1954, should be read in conjunction with the financial statements of the two companies listed on page F-1.

	Packard		Studebaker		Total Packard and Studebaker
	Total	Per Share(1)	Total	Per Share (2)	Total
Dec. 31, 1947	\$60,528,860	\$4.04	\$ 47,991,139	\$20.37	\$108,519,999
Dec. 31, 1948	69,908,352	4.69	63,574,788	26.99	133,483,140
Dec. 31, 1949	70,168,724	4.71	85,252,832	36.19	155,421,556
Dec. 31, 1950	75,331,072	5.06	99,872,345	42.40	175,203,417
Dec. 31, 1951	76,457,730	5.13	105,431,937	44.76	181,889,667
Dec. 31, 1952	77,897,818	5.38	112,805,257	47.80	190,703,075
Dec. 31, 1953	82,940,516	5.72	108,460,360	45.93	191,400,876
Apr. 30, 1954	81,889,331	5.65	97,821,631(3)	41.42(3)	179,710,962(3)

(1) 14,991,340 shares outstanding 1947; 14,891,340 shares 1948 through 1951; 14,491,340 shares outstanding thereafter.

(2) Approximately 2,355,460 shares outstanding 1947 through 1951; 2,359,958 shares in 1952; and 2,361,458 shares in 1953 and 1954 to date.

(3) On the assumption that the carry-back provisions of the above-mentioned tax revision bill will become law these figures would be, respectively, \$102,268,531, \$43.31, and \$184,157,862.

(4) All adjustments necessary to state fairly book values at April 30, 1954 have been reflected herein.

TAX STATUS

Packard has been advised by its counsel that, under the existing provisions of the Internal Revenue Code, Packard will not have any taxable gain or income or deductible loss upon the purchase by it of the Studebaker assets as described above, and that the Packard shareholders will not have any taxable gain or income or deductible loss as a result of the reclassification of their stock or as a result of any of the other actions taken under the Purchase Agreement. Packard has also been advised that, for the purposes of the Internal Revenue Code, the basis in the hands of Packard of the various assets acquired from Studebaker will be the same as the basis of such assets in the hands of Studebaker. Studebaker has been similarly advised by its counsel that Studebaker will not have any taxable gain or income or deductible loss as a result of the sale of the Studebaker assets.

Application has been made to the Commissioner of Internal Revenue for tax rulings covering the points mentioned above. It is to be noted that there is now pending in Congress a complete revision of the Internal Revenue Code which, among other things, makes changes in the requirements with respect to tax-free transactions of the type provided for in the Purchase Agreement. It is not yet possible to determine whether these changes will become law in their present or in a revised form, or, if enacted, what the effective date thereof will be. In the opinion of counsel, the proposed transaction between Packard and Studebaker would be tax-free under the tax bill in the form now under consideration. The Boards of Directors of Packard and Studebaker do not intend to proceed with the closing of the transaction until it can be ascertained that it will be tax-free under whatever law may be applicable.

HISTORY, BUSINESS AND PROPERTIES OF STUDEBAKER

Studebaker is engaged in the business of manufacturing and selling passenger automobiles and trucks of various types and replacement parts and accessories therefor, and has been engaged in the manufacture of a substantial number of aircraft engines (recently turbo-jet engines) and military trucks for the Government. The Studebaker business was founded over 100 years ago and to date has produced over 7,500,000 vehicles, starting with horse-drawn wagons and carriages and currently consisting of passenger cars of advanced styling and engineering as well as trucks and commercial vehicles of varied types. Studebaker is the oldest name in highway transportation in the world and is the fourth largest manufacturer of cars and trucks with the possible exception of the recently merged Nash and Hudson companies.

The Studebaker Corporation, which is a Delaware corporation, presently has a Canadian subsidiary, The Studebaker Corporation of Canada, Limited, for the conduct of its manufacturing and selling operations in

Canada, a Mexican subsidiary, Studebaker de Mexico, S.A., for the conduct of similar operations in Mexico and a service subsidiary, Whiteway Motors, Inc., in New York City.

Studebaker owns and operates large fabricating, manufacturing and assembly plants in South Bend, Indiana. Plants for the assembly of passenger cars are operated in Canada, Los Angeles, California, and Mexico. Studebaker also owns a plant in New Brunswick, New Jersey, originally designed as an assembly plant. Assembly of Studebaker passenger cars is also carried on by independent companies in foreign countries which purchase unassembled vehicles from Studebaker for assembly and distribution in their respective trade areas.

Studebaker during World War II manufactured 63,000 aircraft engines for the famed Flying Fortresses. In addition, it manufactured 198,000 military trucks and 15,000 light-tracked troop and cargo-carrying vehicles known as the "Weasel".

After World War II, Studebaker quickly carried out its plans for reconversion to peacetime production of passenger cars and commercial vehicles. A new line of cars of advanced styling was introduced in 1946 and won immediate favor.

In the post-war period and until production was interrupted by the Korean crisis, that is from 1946 through 1951, Studebaker and its subsidiaries produced 1,462,781 cars and trucks, its gross sales of non-military products being approximately \$2,185,000,000. Studebaker's peak year of passenger-car and truck production was 1950 in which almost 335,000 cars and trucks were sold, and peak employment of over 25,000 men and women was reached.

With the Korean crisis, Studebaker was again called upon for substantial defense assignments and it undertook the manufacture of military trucks and the J-47 jet-aircraft engine, the first standard type of jet engine to be produced in quantity for United States military aircraft.

Studebaker's defense contracts have now largely been completed and its business is again for the most part the production and sale of passenger cars and trucks.

Passenger Cars

Studebaker produces and sells passenger cars with power plants consisting of 6-cylinder engines and a more powerful V-8 engine. The Studebaker model designed to compete in the lower-priced field is known as the "Champion" which utilizes the 6-cylinder engine designed for the utmost efficiency and economy consistent with the horsepower requirements of the car.

The V-8 engine, which was completely designed and engineered by the Corporation's engineering staff, powers models known as the "Commander" and the "Land Cruiser". These models are priced in the lower to middle-price class. Recently introduced is the "Conestoga", a station wagon designed to preserve the advanced styling characteristic of all Studebaker cars.

"Champions" and "Commanders" are offered in a complete line of models including two and four-door passenger sedans, coupes, and hard-top convertibles.

Approximately 80% of Studebaker's total dollar sales (exclusive of sales of military products) in 1953 was represented by passenger cars.

Trucks

Trucks from $\frac{1}{2}$ -ton to 2-ton capacity are manufactured by Studebaker and are marketed under the name "Studebaker". These trucks include various types of pick-up trucks, trucks with stake bodies, utility trucks of various types and tractors for hauling trailers. Studebaker also sells truck chassis of different sizes which are sold to others, who add bodies for busses and truck bodies for varying purposes such as cargo hauling, agricultural purposes, dump trucks and other varied purposes. Trucks accounted for approximately 8% of total 1953 dollar sales (exclusive of sales of military products).

Parts, Equipment and Accessories

The sale of parts, equipment and accessories composes a significant part of Studebaker's gross sales, accounting for approximately 12% of total 1953 dollar sales (exclusive of sales of military products). Some replacement parts are manufactured by Studebaker and others are purchased and are distributed throughout the market areas for Studebaker's products through a central parts and accessories plant and warehouse in South Bend and twenty-six branch parts and accessories warehouses throughout the United States, Canada and Mexico. Parts and accessories are thus sold to dealers for resale to their customers.

Government Business

Early in 1951, Studebaker again commenced production of military trucks for the Government, completing its contracts for such trucks in August, 1953. During that period it produced over 38,000 military trucks. The machinery, equipment and special tooling used in the assembly of such trucks are maintained and stored by Studebaker in a stand-by production package which will permit rapid resumption of the assembly of such trucks at any time.

In January, 1951, Studebaker entered into a supply contract with the Government for the manufacture and assembly of the J-47 jet engine. Both Packard and Studebaker undertook substantial production of such engines under license agreements with General Electric Company, which originally designed the engines. Major components for the jet engines manufactured by Studebaker were machined in a Government-furnished plant in Chicago, Illinois; additional components were manufactured at Studebaker's plant in New Brunswick, New Jersey; and all assembly and testing operations were carried out at South Bend. Studebaker completed delivery of engines under the contract in January, 1954, and delivery of required spare parts will be substantially completed in July, 1954.

In conjunction with the contract for the production of jet engines, Studebaker entered into a facilities contract with the Government under which the Government furnished machinery and production equipment and made available to Studebaker the plant in Chicago, Illinois, referred to above. Under contracts now being negotiated by Studebaker and the Department of the Air Force, the Chicago plant, which is now Government owned, and such Government-furnished machinery and production equipment will be held as a stand-by production reserve package to be maintained and serviced by Studebaker.

It is, of course, not possible to predict when Government procurement policies will change or circumstances require the inclusion of Studebaker again in the manufacture of military equipment. However, Studebaker has continued to make every effort to obtain Government contracts and maintains its readiness to carry out any defense assignment that is given to it.

It is estimated that military items accounted for approximately 35% of total dollar sales of Studebaker in 1953 and 27% in the first four months of 1954.

Sales Organization

Domestic

"Champions", "Commanders", "Land Cruisers", "Conestogas", and trucks, as well as spare parts and accessories, are sold by Studebaker in the United States and Canada directly to authorized Studebaker dealers who number approximately 2,800, and who in turn resell to the public at retail. Authorized Studebaker dealers are strategically located in all important marketing areas throughout the country. Studebaker maintains 21 regional sales offices and 25 parts and accessories warehouses located throughout the United States and Canada to best service the entire dealer organization. In addition, a large General Service Department is maintained at the South Bend plant which coordinates the activities of service representatives throughout the country.

Export

Studebaker cars and trucks, as well as spare parts and accessories, are sold substantially throughout the world. Export sales of Studebaker products have increased in recent years and accounted in 1953 for about

7% of Studebaker's total nonmilitary sales. Current models have found particular favor in export markets.

In some countries Studebaker has direct dealers who purchase from Studebaker and resell directly or through subdealers fully assembled automobiles and trucks, as well as spare parts and accessories. In addition, in the Union of South Africa, India, Belgium, Denmark, Brazil and the Philippines, these independent companies operate assembly plants and sell cars and trucks under contracts with Studebaker. These independent companies purchase completely knocked-down major vehicle components from Studebaker which are assembled into complete vehicles with all necessary accessories. Each of these independent companies sells directly and through its own dealer organization.

Export distributors and direct dealers (in countries other than Canada) number in the aggregate approximately 250, exclusive of subdealers, and sell Studebaker products in 77 different countries throughout the world.

Employee Relations

Studebaker and its subsidiaries have a total of approximately 15,000 employees on their payrolls, 11,900 of whom are hourly rated and 3,100 are salaried employees. The hourly rated employees of Studebaker at South Bend, Indiana, Los Angeles, California, and Hamilton, Ontario, and certain salaried employees at Los Angeles, California, are represented for collective-bargaining purposes by locals of the United Automobile Workers—C. I. O.

None of the locals has ever called a strike against Studebaker. Its entire history has been singularly free of labor strife. It has an unusually large proportion of long-service employees, and "family teams" comprising two and three generations of the same family are not uncommon, which has given rise to the father-son tradition at Studebaker.

In February, 1954, Studebaker's industrial relations activities were reorganized and integrated under a vice-president for industrial relations. There are now in progress management development and supervisory training programs and programs of employee communications, utilizing modern media and techniques. These programs are aimed at cost reduction and supervisory efficiency, as well as increased quality consciousness at all levels.

Studebaker and the Union are now engaged in negotiations which, when consummated, are expected to result in substantial reductions in manufacturing costs.

Plants and Properties

The principal manufacturing and assembly plants of Studebaker, as well as its executive offices, sales and administrative headquarters, are located in South Bend, Indiana. In addition to passenger-car and truck manufacturing facilities, as well as facilities used in the assembly of jet engines, the Corporation's proving grounds are located at South Bend.

The Los Angeles, California, plant was designed for and presently assembles Studebaker passenger automobiles for the West Coast markets.

Studebaker's New Brunswick, New Jersey, plant was originally designed and planned as a complete passenger-car assembly plant to serve the eastern market but, since its construction three years ago, has been used exclusively in the performance of Government contracts.

The passenger-car and truck assembly plant at Hamilton, Ontario, is owned and operated by Studebaker's wholly owned Canadian subsidiary.

A relatively small passenger-car and truck assembly plant is operated outside of Mexico City, Mexico, by a wholly owned Mexican subsidiary.

The following is a brief description of the plants and properties of Studebaker and its subsidiaries, all of which are owned in fee simple, without substantial encumbrances, except where described as leased premises:

(a) SOUTH BEND, INDIANA:

Studebaker's plants in South Bend, Indiana, have an aggregate of approximately 7,895,000 square feet of floor space and are located on a total of 1,412 acres of land. The buildings comprising these plants are for the most part of fireproof or semifireproof brick and reinforced concrete or steel-frame construction, range in height from one to six stories and are of various types, sizes and ages.

The manufacturing facilities include a modernized and mechanized foundry of large capacity which produces castings necessary in the manufacture of engines and in the manufacture of other essential automotive parts; machine shop and engine assembly facilities for machining castings made by Studebaker and forgings purchased from others and for assembling Studebaker's 6-cylinder and 8-cylinder engines; a stamping plant for the manufacture of hoods and fenders and small components; complete passenger-car body-assembly and paint and trim facilities; passenger-car assembly lines consisting of numerous feeder lines, final assembly lines, inspection bays and doll-up lines; and a completely modernized power plant.

Assembly of all truck bodies and the assembly of complete trucks are carried on in a modern air-conditioned completely fireproof brick and steel-frame plant which was purchased by Studebaker from the Government in 1948, the main part of the plant having been initially designed and built as an aviation-engine plant in 1941, with additions thereto in 1943. The plant, including test cells, administration building and other accessory buildings and facilities, has a total floor area of approximately 1,900,000 square feet. In recent years the plant has also been used for the assembly of military trucks and jet-aircraft engines for the Government.

Studebaker also owns and operates at South Bend a modern central service parts and accessories warehouse which serves as a main supply source for service parts and accessories for the twenty-six branch parts and accessories warehouses located in the United States, Canada and Mexico. The plant is fireproof and has 677,975 square feet of floor space. It is completely equipped with the latest material-handling, boxing and packaging equipment and loading facilities.

The Studebaker Proving Ground, used for the testing of Studebaker motor vehicles, is located approximately 13 miles west of South Bend, consists of 800 acres of land with a 3-mile bituminous concrete-paved track and approximately 17 miles of roads of various types for testing purposes. These include so-called "washboard" or corrugated areas, steep inclines, sand and mud pits, a water basin and other vehicle-driving surfaces and hazards designed for the subjection of Studebaker cars and trucks to the most extreme conditions. Auxiliary installations include garages and structures housing test equipment of all sorts.

The properties at South Bend also include Studebaker's Administration Building, Engineering Building and Industrial Relations Building, as well as numerous maintenance, service and other supporting facilities.

Studebaker's plants and properties at South Bend are served by the New York Central Railroad, the Grand Trunk Western Railroad, the Pennsylvania Railroad, and by the Wabash Railroad through the New Jersey, Indiana & Illinois Railroad.

(b) LOS ANGELES, CALIFORNIA:

Studebaker leases on a long-term basis a one-story automobile assembly plant located in the City of Vernon, Los Angeles County, State of California. The plant is constructed of reinforced concrete, is completely fireproof, has a floor space of approximately 320,000 square feet and is served by the Santa Fe Railroad and by the Los Angeles Junction Railway which connects with the Union Pacific Railroad and the Southern Pacific Railroad. The plant has complete facilities for finishing body parts, painting and trimming and assembly of complete automobiles.

(c) HAMILTON, ONTARIO (Canada):

Studebaker's wholly owned Canadian subsidiary owns approximately 14 acres of land in Hamilton, Ontario, Canada, on which there is located a one-story plant with approximately 307,000 square feet of floor space. The plant is of brick and steel-frame construction and is served by the Canadian National Railways through siding connections. Paint and trim operations and a complete passenger car and truck assembly operation are conducted in the plant. In 1952, the subsidiary purchased an additional 190-acre tract of land which is located approximately nine miles east of Hamilton, Ontario, adjacent to the Canadian National Railways. The

Canadian subsidiary in 1952 also purchased approximately six acres of land in Montreal, Quebec, and recently completed thereon a modern one-story brick and steel frame building containing 20,892 square feet, which is used for a regional sales office and a parts and accessories warehouse.

(d) NEW BRUNSWICK, NEW JERSEY:

Studebaker, in 1950, purchased a 165-acre tract of land in North Brunswick Township, New Jersey, approximately three miles from New Brunswick, New Jersey, on the main line of the Pennsylvania Railroad 35 miles from New York City. In the spring of 1951 it completed construction thereon of a completely modern one-story building of steel-frame and glass and masonry construction designed for the assembly of passenger-car bodies as well as the assembly of complete automobiles, and having a floor space of approximately 400,000 square feet. The New Brunswick plant, although originally planned for production of passenger cars, to date has been equipped and used solely for the production and packaging of jet-engine components and parts used in jet engines built for the United States Air Force by Studebaker at its South Bend plants.

(e) MEXICO CITY (Mexico):

Studebaker's wholly owned Mexican subsidiary leases a one-story automobile and truck assembly plant located approximately 12 miles from Mexico City. The plant is constructed of brick and reinforced concrete with steel framing, has floor space of approximately 150,000 square feet and has siding connections with the National Railways of Mexico. The plant has facilities for body assembly, painting and trimming, and assembly of complete automobiles and trucks.

(f) BRANCH PARTS AND ACCESSORIES WAREHOUSES:

Studebaker maintains 26 branch parts and accessories warehouses throughout the United States, Canada and Mexico. With some exceptions, each of these warehouses is a modern one-story building constructed in accordance with Studebaker's specifications. They vary in floor space—up to 50,000 square feet. The warehouses are in most cases leased by Studebaker on long-term leases with options to renew.

(g) MISCELLANEOUS:

Studebaker or its subsidiaries are lessees of space in many locations throughout the country, which space is used for regional sales offices and other offices required in connection with the operation of the Studebaker business.

Since World War II Studebaker and its subsidiaries have made net expenditures for capital improvements in excess of \$59,000,000 (not including expenditures for dies and special tooling for various passenger-car and truck models), a substantial part of which has gone for modernization of its existing plants and the construction and acquisition of new plants and facilities. The major items include the construction of a new toolroom building and a receiving dock for subassemblies in connection with its body-assembly plants and the modernization and renovation of its power plant and electrical distribution systems in 1946; the modernization and mechanization of its foundry, which commenced in 1948 and was completed in 1950; the installation of Clearing and Bliss presses of sufficient size to make the largest-sized hoods and fenders in the stamping plant in 1948; the extension of existing buildings for and the acquisition of machinery and equipment (including installation of modern automation lines) for the production and assembly of V-8 engines in 1950; the acquisition of the Canadian plant in 1946; the acquisition of the truck body and assembly plant from the Government in 1948 (which, as previously mentioned, was originally built and equipped as an aviation-engine plant during World War II); construction of additions to the central parts and accessories plant at South Bend in 1951; construction of a new export packaging, shipping and loading plant in 1951; the construction of the New Brunswick plant in 1951; and the installation of a closed body conveyor between Studebaker's body-assembly plants and its final assembly lines in 1953.

HISTORY, BUSINESS AND PROPERTIES OF PACKARD

Packard manufactures and sells high-quality passenger cars and aircraft, marine and automotive engines. The first Packard car was built in 1899 by J. W. Packard and his brother, W. D. Packard, in a small factory in Warren, Ohio. In the intervening 55 years, the outstanding performance of Packard products on the highways of the world and the high quality of the aircraft and marine engines and other defense products manufactured by Packard for the United States and Allied Governments have made the name "Packard" synonymous with products of the highest quality.

The Company was incorporated in 1901 and has done business as Packard Motor Car Company since 1902. Its plant was moved to Detroit in 1903, and, on September 1, 1909 the Company became a Michigan corporation under a charter which, as extended and amended, is still in effect today. The Company has one subsidiary—Packard Motor Car Company of Canada, Limited.

The manufacturing and assembly plants and principal executive offices of the Company are located in Detroit, Michigan, or vicinity. Since World War II (through December 31, 1953), Packard has produced and sold 588,711 cars in the medium and high-price fields for total automotive sales (including parts and accessories) of \$1,376,839,559. In 1949, Packard produced and sold 101,738 cars (its post-war peak), representing automotive sales of over \$211,000,000.

Packard has always played a vital role in the war and defense programs of the United States. It developed and was the principal manufacturer of Liberty aircraft engines during World War I. In World War II, Packard was the sole supplier of engines for PT boats and built approximately 13,000 of these advanced-type marine engines. In addition, Packard manufactured 55,000 Rolls-Royce aircraft engines for the Fighter Command of the British RAF and the United States armed forces. During the Korean conflict, Packard produced a new type of marine engine for the Navy and played a significant role in the manufacture of the J-47 jet aircraft engine for the United States Air Force. At the present time, Packard is continuing to develop and produce material for the United States armed forces.

Current Developments

During the period from 1946 to 1953 the Company made capital expenditures of \$45,698,373, exclusive of expenditures for dies and special tooling for various passenger car models. Principal expenditures included the construction of the Utica plant and warehouse, completed in 1952, the acquisition of the Mount Elliott plant in 1951 and acquisition of various distribution properties and machinery and equipment for the production of automatic transmissions.

During 1952 and 1953, plans were completed for extensive modernization and improvement of the Company's automotive manufacturing facilities. As the first step in this program, the Company is transferring its engine, automatic transmission, rear axle and front suspension manufacture from its Detroit plants to Utica, Michigan. The Utica plant, subsequently described, has an area sufficient to accommodate continued defense work as allocated by the Government and provide for the automotive manufacturing operations being transferred. This new facility will permit application of a policy of a dual operation to meet the needs of both civilian and military production.

The new facility at Utica is being equipped with the most modern automatic machinery known in the industry today and, when completed, will provide the Company with one of the most efficient engine and major chassis parts operations available in the industry. The program includes more than the modernization of facilities. Certain product features, including a completely new V-8 engine and an automatic transmission embodying advanced features of design and performance, will be produced in the new facility.

The second step of the Company's modernization program covers the manufacture by Packard of its own automobile bodies. From 1941 to the end of 1953, the Company purchased its automobile bodies from Briggs Manufacturing Company. On December 29, 1953, the automotive manufacturing facilities of Briggs were purchased by Chrysler Corporation, which has continued the manufacture of Packard bodies since that date. As subsequently outlined, the Company has leased from Chrysler (with an option to buy) the Conner Plant, where Packard bodies are presently manufactured. Packard will commence body manufacture in this plant in July, 1954 and before the end of the year will also transfer final car assembly from its main plant to the Conner Plant.

After these moves and commencing with the manufacture of 1955 models, the major Packard automotive manufacturing will be housed in two completely modern facilities—engines and major chassis parts at Utica, and bodies and final car assembly at the Conner Plant in Detroit.

At the completion of the total program, it is estimated that the Packard floor space may be reduced by over 1,800,000 square feet and yet the same productive capacity retained.

The modernization program will be largely completed by the end of 1954. Capital expenditures in connection with the program for the period from April 30, 1954, to the end of the year, including expenditures for dies and special tooling for the new engines and items of an expense nature but excluding tooling for the 1955 new models, are estimated at about \$22,600,000.

Concurrent with this program of facility modernization, management revitalization has been undertaken by the Company during the past eighteen months. The purpose of this reorganization has been to establish a management group blending veteran Packard personnel with new executives, obtained from the automobile industry where industry knowledge was necessary and from general industry where specialized talents were required.

Passenger Cars

Packard produces and sells two lines of passenger cars, the "Packard Clipper" in the medium-price range, and the "Packard" in the high-price range. All current models of the Packard and the Packard Clipper have Packard-made eight-cylinder engines, with horsepowers ranging from 150 to 212. Modern contour body styling was first introduced with the 1951 model, and further style changes have been subsequently made as indicated by customer preferences. The 1955 models of both the Packard and Packard Clipper will incorporate major mechanical and style changes.

Parts, Equipment and Accessories

The Company's sales of parts, equipment and accessories for its passenger cars represent a substantial part of its business. In 1953, sales in these categories represented over 18% of Packard's total non-military sales. The Company has a completely modern parts and accessories warehouse at Utica, Michigan, from which parts and accessories are sent to regional parts depots and to dealers and distributors throughout the country for resale.

Government Business

In 1947, the United States Navy requested Packard to develop the most compact, light-weight power plant possible for marine use. This development led to a family of non-magnetic, high-horsepower, light-weight diesel engines; in 1950 the Navy placed contracts for these diesels to power its new minesweeper fleet.

With the advent of Korea, the United States Air Force requested Packard, as it did Studebaker, to undertake the manufacture of the J-47 jet aircraft engine, originally designed by General Electric Company.

On February 28, 1951, the Company executed a facility contract with the Department of the Air Force calling for the furnishing by the Government of an estimated \$59,000,000 of facilities required for the production of the J-47 jet engine. Approximately \$6,900,000 of this amount which remains unexpended has been earmarked for preparation and movement to storage of facilities not now required. A facility stand-by agreement is being negotiated with the Air Force, which will provide for continuing jet engine production on a pilot line basis, with on-site storage of facilities to allow for ready mobilization production.

At the time of entering into the J-47 engine program, the Company constructed a service parts warehouse in order to provide required manufacturing space at its main plant for J-47 jet engine components. An assembly plant adjoining the warehouse was constructed for the assembly of the J-47 engine. These plants are located on a site acquired for the purpose, north of Utica, Michigan and adjacent to the Packard Proving Grounds. Certificates of Necessity providing for accelerated amortization of 75% of the estimated acquisition cost of the facilities over a five-year period were granted by the Government. In addition, property known as the Mt. Elliott Plant and located one-half mile north of the Main Plant in Detroit was acquired for the installation of forging facilities required for the production of jet engine buckets and blades. The acquisition cost of this plant has been covered by a Certificate of Necessity granted by the Government, providing for accelerated amortization of 65% of the acquisition cost.

Schedules for the J-47 jet engines have been sharply reduced by the Air Force due to the general cutback in national defense procurement and to the fact that the life of these engines in actual use has far exceeded original estimates. Packard's present contract for J-47 engines on the reduced schedules extends until June, 1955.

Present contracts for the Navy diesel engines will continue through 1954. The Company is also engaged in further development work on aircraft and marine engines for the armed services.

It is estimated that military items accounted for approximately 42% of total dollar sales of the Company in 1953 and 37% in the first four months of 1954.

Sales Organization

Domestic

Packard cars and other automotive products are sold in the United States at retail by approximately 1,200 independent dealers, and also directly through 7 Company-owned retail outlets. Approximately 1,030 of the dealers purchase cars and other automotive products directly from Packard; the remaining dealers purchase from wholesale distributors. There are 8 such distributors, each a direct customer of Packard, situated in trade areas where it is thought desirable and economical to market the Company's products through distributorship channels.

The Company has 12 zone or branch offices located in principal cities of the nation for the purpose of servicing dealer accounts, operating parts warehouses, and otherwise carrying on the Company's sales and distribution activities.

The Company-owned retail outlets are located at: Boston, Massachusetts; Chicago, Illinois; New York, New York; Hartford, Connecticut; Philadelphia, Pennsylvania; Pittsburgh, Pennsylvania; and White Plains, New York.

Foreign (including Canada)

Canadian sales are handled by the Company's wholly-owned subsidiary, Packard Motor Car Company of Canada, Limited, which was incorporated under the laws of the Province of Ontario in 1931. This subsidiary operates as the Company's distributor of cars and parts in Canada, but does no manufacturing or assembling of cars. It has no funded debt or minority shareholder interest other than directors' qualifying shares.

Distribution of automobiles in other foreign countries is handled by the Company's Export Division in New York City through authorized dealers located abroad.

The foreign sales of Packard automotive equipment amounted to 4.3% of total non-military sales of the Company in 1953.

Employee Relations

Packard has approximately 9,000 people on its payrolls, 6,200 of whom are hourly-rated employees and 2,800 salaried employees. Many Packard employees have unusually long service with the Company. Packard has a well-organized and integrated Industrial Relations Division developed according to modern industrial organization.

Most of the Company's hourly-rated employees have been represented by Local 190, UAW-CIO, since 1937. The salaried technical employees and certain clerical employees are also represented by Local 190, UAW-CIO. The plant guards are represented by the United Plant Guard Workers of America, and the nurses by Local 889, UAW-CIO.

The Company has enjoyed stable union relationships over a period of approximately sixteen years. There has been no authorized strike of the Company's operations since August, 1950, at which time the Company entered into five-year contracts with the unions. Since 1950, there have been only minor interruptions of production by unauthorized work stoppages. Packard employees are paid wages comparable to the wage rates paid in the automobile industry. Under the five-year labor contracts, employees receive annual improve-

ment factor increases and cost-of-living allowances. Packard employees also have other benefits, such as pension plans, group insurance, hospitalization plans, etc., patterned in general after those prevalent in the automobile industry.

Plants and Properties

The Company's manufacturing plants and principal executive offices are located in Detroit, Michigan, and environs. The four major manufacturing and assembly facilities of the Company are the Main Plant, at 1580 East Grand Boulevard, Detroit, Michigan, the Mt. Elliott Plant, at 8650 Mt. Elliott Avenue, Detroit, the Utica Plant, at 23 Mile Road, Utica, Michigan and the Conner Plant, at 4621 Conner Avenue, Detroit. In addition, at Utica there is a service parts and accessories warehouse, plus the Packard Proving Grounds.

The principal executive offices of the Company are located at the Main Plant, 1580 East Grand Boulevard, Detroit.

The Company's Canadian subsidiary owns a one-story office, showroom and warehouse, with 24,165 square feet of floor space, near Windsor, Ontario, which serves as the distribution point for Packard automobiles, service parts and accessories supplied to the Canadian market. This is the only investment of the Company located outside of the United States.

The Company also owns or leases warehouses and offices in many parts of the country, which properties are used as zone offices, parts and accessories warehouses, and retail sales and service outlets.

The following is a brief description of the principal properties of Packard Motor Car Company, which properties are owned in fee simple and without substantial encumbrances, except where described as leased properties:

(a) MAIN PLANT

1580 East Grand Boulevard, Detroit, Michigan—This plant, located on part of an area consisting of 83.8 acres of land, has a floor area of 4,498,412 square feet, with railroad siding facilities on the New York Central Railroad. Facilities include a cast iron foundry, forge shop, machine shop, heat treat and plating, body trim, miscellaneous stampings and a power house for supplying heat, light and power. Packard automobiles are assembled at this plant, and the buildings house the general offices as well as the engineering offices and laboratories. Buildings range from single to multi-floor areas and are of concrete, brick and steel construction.

(b) MT. ELLIOTT PLANT

8650 Mt. Elliott Avenue, Detroit, Michigan—This plant, located one-half mile north of the Main Plant, with New York Central siding connection, has a floor area of 309,134 square feet, consisting of a one-floor manufacturing area and four-story office building. The plant, constructed of brick, concrete and steel, houses the facilities furnished by the Government for the production of drop forgings under jet engine contracts with the Department of the Air Force.

(c) UTICA PLANT

23 Mile Road, Utica, Michigan—This plant is located on a 55.5 acre plot adjacent to the Packard Proving Grounds and serviced with spur track facilities of the New York Central Railroad. New modern buildings include a one-floor service parts and accessories warehouse with a floor area of 414,486 square feet and a one-floor jet engine assembly, testing and inspection building with an area of 784,937 square feet. Also included are a two-story administration building, boilerhouse, gatehouse, pumphouse, sewage plant, substation and plant guard headquarters. Due to extending of the Company's jet engine contract and the reduction of the production rate to a pilot line basis, the assembly of this engine has been transferred to the Main Plant in Detroit. The Company will use the space released in the Utica plant for the production of automobile engines, automatic transmissions, rear axles and front suspensions.

(d) PROVING GROUNDS

Utica, Michigan—This property, located about twenty miles north of the Main Plant in Detroit, covers 504 acres of land embodying facilities for the testing of Packard automobiles. Facilities include a 2½ mile

speedway, believed to be one of the fastest closed concrete tracks in the world, specially constructed terrain and dirt roads for endurance testing, buildings with 37,398 square feet of floor space, housing engineering laboratories, repair garage, experimental shops and a gate lodge which serves as an administration building and contains dormitory facilities for day and night test drivers.

(e) CONNER PLANT

4621 Conner Avenue, Detroit, Michigan—The Company has concluded an agreement with Chrysler Corporation whereby the Company has leased for a period of five years, with option to purchase, this modern automobile body plant. The lease and option include body assembly and painting facilities and make available to the Company for the first time since 1941 the necessary facilities for assembly and painting of automobile bodies. The plant, located on a 23.9-acre parcel of land, has a floor area of 759,749 square feet.

(f) 955 HURON LINE ROAD, WINDSOR, ONTARIO

This property, located near Windsor, Ontario, covers 7.1 acres of land on which there is situated a one-story office, showroom and warehouse, with 24,165 feet of floor space. The property is adjacent to the main highway from Detroit into Canada via the Ambassador Bridge over the Detroit River. The plant is also served with a spur track and has adequate yard facilities and loading docks. The building contains the offices of the subsidiary, Packard Motor Car Company of Canada, Limited, and the warehouse serves as the distribution point for Packard automobiles, service parts and accessories supplied to the Canadian market.

(g) DISTRIBUTION PROPERTIES

The Company owns fifteen properties situated in principal cities or metropolitan areas of the United States, which are variously used for zone offices, parts warehouses, retail sales operations or are leased to dealers or others. One of the properties is a 7.45-acre tract of unimproved real estate held as a possible future site for a zone office and parts warehouse. The other fourteen parcels, totaling 34 acres of land, more or less, are improved by buildings having in total approximately 970,870 square feet of floor space.

The Company or its subsidiary is lessee of space in many locations throughout the country and in Canada, which space is used for zone offices, parts and accessories warehouses, retail sales and service outlets and, in some cases, is sublet to dealers or others.

DIRECTORS AND MANAGEMENT

Directors

The names of the seven continuing Packard Directors and of the eight nominees, each of whom is to serve on the enlarged Board of Directors from the closing under the Purchase Agreement until the next Annual Meeting of Shareholders and until his successor has been duly elected, together with certain information with respect to their principal occupations and employments, are as follows:

<u>Name of Packard Director</u>	<u>Principal Occupation</u>	<u>Served as Director since</u>
Earle C. Anthony	President and Director, Earle C. Anthony, Inc. Distributor of Packard products in State of California	1948
Edwin Foster Blair	Member of firm of Hughes, Hubbard, Blair & Reed, Lawyers, New York City	1950
Hugh J. Ferry	Chairman of the Board, Packard Motor Car Company	1948
James McMillan	Vice President, Treasurer and Director, The Boyer Campbell Co., Factory Supplies	1946
James J. Nance	President and Chief Executive Officer, Packard Motor Car Company	1952
Homer A. Vilas	Member of the firm of Cyrus J. Lawrence & Sons, members of the New York Stock Exchange, Stock Brokers	1951
W. Tom ZurSchmiede	Chairman of the Executive Committee and Director, Federal Screw Works, Manufacturing	1948

<u>Name of Nominee</u>	<u>Principal Occupation</u>	<u>Served as Studebaker Director since</u>
James G. Blaine	President, The Marine Midland Trust Company of New York, Commercial Bankers, New York City	1935
J. Russell Forgan	Partner, Glore, Forgan & Co., Investment Bankers, New York City	1951
John Hertz	Partner, Lehman Brothers, Investment Bankers, New York City	1952
Paul G. Hoffman	Chairman of the Board of Studebaker	1935
Maurice T. Moore	Member of the firm of Cravath, Swaine & Moore, Lawyers, New York City	1935
L. Z. Morris Strauss	Financial adviser and capital management, New York City	1937
Harold S. Vance	President of Studebaker	1935
John H. Watson, Jr.	Member of the firm of M. B. & H. H. Johnson, Lawyers, Cleveland, Ohio	1935

There has been no change in the principal occupations of the eight nominees during the past five years, except in the case of Mr. Paul G. Hoffman. In 1948 Mr. Hoffman resigned as President and as a Director of Studebaker to become Administrator of the United States Economic Cooperation Administration. In 1951 he left government service to become the President of the Ford Foundation. Effective March 1, 1953, he returned to Studebaker as Chairman of the Board and a Director. During Mr. Hoffman's absence, Mr. Harold S. Vance served both as Chairman of the Board and President of Studebaker.

Mr. Hertz was a Director of Studebaker from 1935 to 1941 and was reelected to the Board in 1952.

Security Holdings of Directors and Nominees

The seven directors and eight nominees listed above owned beneficially, directly or indirectly, as of June 1, 1954, as reported by them, approximately the following shares of Common Stock in Packard and Studebaker:

<u>Name</u>	<u>Shares of Studebaker Common Stock</u>	<u>Shares of Packard Common Stock</u>
Earle C. Anthony		244,618
James G. Blaine	100	
Edwin Foster Blair		1,000
Hugh J. Ferry		500
J. Russell Forgan	200	
John Hertz	100(1)	
Paul G. Hoffman	8,275	
James McMillan		18,833(2)
Maurice T. Moore	1,500	
James J. Nance		1,000
L. Z. Morris Strauss	200	
Harold S. Vance	8,500	
Homer A. Vilas		1,500
John H. Watson, Jr.	200	
W. Tom Zur Schmiede		9,000

NOTES:

- (1) Represents shares owned beneficially by Lehman Brothers of which Mr. Hertz is a partner.
- (2) Mr. McMillan is one of 4 trustees of a decedent's estate which owned 10,000 shares of Packard common stock, and one of the contingent and residuary beneficiaries of the trust under the will of said decedent, and as such trustee is entitled with the other trustees to vote said shares.

Officers

As provided in the Purchase Agreement, after the closing of the purchase of the Studebaker properties and assets, Mr. James J. Nance will continue as President and Chief Executive Officer of the Company, with the responsibility of the general direction and supervision of the business affairs and operations of Studebaker-

Packard, subject to the Board of Directors. Mr. Paul G. Hoffman, now Chairman of the Board of Studebaker, will become Chairman of the Board of Studebaker-Packard, and Mr. Harold S. Vance, now President of Studebaker, will become Chairman of the Executive Committee.

It is contemplated that, following the closing of the purchase, other officers and employees of Packard and of Studebaker will be elected or appointed to appropriate positions in the management.

Remuneration and Other Transactions with Directors and Officers during 1953

The following information is furnished with respect to (i) each director and each of the three highest paid officers of Packard and of Studebaker whose direct aggregate remuneration exceeded \$30,000 during 1953 and (ii) all directors and officers, as a group, during 1953 of Packard and of Studebaker:

Remuneration of Packard Directors and Officers for 1953:

Name of Individual or Identity of Group	Capacities in Which Remuneration was Received	Aggregate Remuneration	Estimated Annual Benefits upon Retirement
James J. Nance	President and General Manager	\$168,017.00	(1)
W. R. Grant	Vice President and Treasurer	67,433.63	(1)
Fred J. Walters	Vice President, Marketing	59,933.59	(1)
Hugh J. Ferry	Chairman of the Board	52,517.03	\$12,000
All directors and officers as a group, including those named above (19)	Directors or Officers	674,892.73	(2)

NOTES:

(1) This table does not include pension benefits or accruals under the Company's Basic Pension Plan which is applicable to substantially all of the Company's employees. Under the Basic Plan payments to a trustee are computed on an actuarial basis and the Plan provides for fixed benefits at normal retirement (age 65) at the rate of \$1.75 per month for each credited year of service not exceeding 30 years. Under the Basic Plan estimated annual benefits upon retirement are: J. J. Nance—\$268.80; W. R. Grant—\$485.16; F. J. Walters—none (resigned); Hugh J. Ferry—\$630.00; Officers and Directors as a group—\$5,412.

(2) Due to the fact that under the contributory plan pension benefits are determined according to earnings which vary, it is impracticable to state estimated annual benefits upon retirement of members of this group. The aggregate amount set aside or accrued to the end of the fiscal year is \$220,827.06. The maximum pension payable under the contributory plan is \$12,000 per year.

Remuneration of Studebaker Directors and Officers for 1953:

Name of Individual or Identity of Group	Capacities in Which Remuneration was Received	Aggregate Remuneration (2)	Estimated Annual Pension if Service continues to age 65 (3)
H. S. Vance	Chairman of the Board and President (1)	\$145,833.32	\$25,630.00
Paul G. Hoffman	Chairman of the Board (1)	83,333.33	21,700.39
P. O. Peterson	Executive Vice-President	96,000.00	21,882.52
K. B. Elliott	Executive Vice-President	96,000.00	21,995.05
All directors and officers as a group, including those named above (18)	Directors or Officers	840,166.65	187,610.26

NOTES:

(1) Mr. Vance served as both Chairman of the Board and President until March 1, 1953, when Mr. Paul G. Hoffman became Chairman of the Board.

(2) The amount listed above in the column "Aggregate Remuneration" for all directors and officers of the Corporation, as a group, does not include \$80,000 received by the law firm of Cravath, Swaine & Moore, of which Mr. Maurice T. Moore, a director during the past year, is a partner, for legal services rendered during 1953 to the Corporation.

(3) The amounts listed above in the column "Estimated Annual Pension if Service continues to age 65" are in each case based upon the following assumptions; that the Pension Plan will be continued; that the officers named will continue to participate in the Pension Plan; that they will continue to receive their present salaries until age 65; that there will be no change in the amounts of future service annuities purchased each year; and that there will be no changes affecting the basis for calculating benefits payable under the Pension Plan. The amounts listed under such heading include in each case both the contributory and non-contributory pensions payable to the named individual.

Interests of Certain Persons

Upon the closing under the Purchase Agreement, Studebaker will hold 3,542,187 shares out of the 6,440,455 shares of New Common Stock, issued and outstanding. Packard has been advised by the eight nominees for directors that they own beneficially, directly or indirectly, as of June 1, 1954, shares of the common stock of Studebaker, as shown above in the table under the caption "Security Holdings of Directors and Nominees".

Mr. J. Russell Forgan and Mr. John Hertz, presently directors of Studebaker and proposed directors of Studebaker-Packard, are members of the investment banking firms of Glore, Forgan & Co. and Lehman Brothers, respectively. Those firms, together with Kuhn, Loeb & Co., will each receive \$35,000, which will be paid by Studebaker-Packard for their services in assisting in the negotiations, by making studies and recommendations in connection with the purchase of the properties and assets of Studebaker.

Mr. Edwin Foster Blair and Mr. Maurice T. Moore are members of the law firms of Hughes, Hubbard, Blair & Reed and Cravath, Swaine & Moore, respectively, which firms are rendering legal services to Packard and Studebaker, respectively, in connection with the proposals herein described and related matters.

Future Remuneration Payments for Certain Packard Officers

Packard has a Special Compensation Plan by the terms of which awards to executive employees are made based upon Packard earnings. A percentage of each award is immediately payable, and a percentage (determined according to the amount of the award) may be deferred for future payment. The deferred portion is subject to reduction if the participant's employment with Packard is terminated within 36 months from the close of the fiscal year in respect to which the award is made, annual installments are forfeitable in the event participant fails to render certain consulting and advisory services to Packard, and all unpaid annual installments are forfeitable in the event participant undertakes competitive employment. Under the terms of this plan \$42,000 of the special compensation award made to Mr. James J. Nance in 1953 with respect to the fiscal year 1952 has been deferred for future payment. No other sums are presently deferred for future payment to Mr. Nance or any other person under the terms of this plan.

Packard is a party to two contracts which contemplate future remuneration payments. One contract is with Mr. Hugh J. Ferry, Chairman of the Board, and is upon the consideration that he will render advisory and consultant services to Packard and not engage in competitive employment during the period ending December 31, 1959. Upon the continuing fulfillment of these obligations Packard will pay Mr. Ferry the sum of \$24,000 for the year 1954, and \$12,000 per year thereafter until December 31, 1959. Packard has contracted with Mr. James J. Nance, its President, for his consulting and advisory services during a period of fifteen years following the time he ceases to be a salaried employee of Packard for the consideration of \$40,000 per annum. Payments are forfeitable during any period in which he fails to render such services or undertakes competitive employment. Provisions are made for payment of an equal aggregate amount to Mr. Nance or his beneficiaries in the event he becomes disabled or dies while he is a salaried employee of Packard, and for payment of any unpaid balance of said aggregate amount in the event of his death during the consulting and advisory period. Provision is also made whereby Mr. Nance may participate in payment of premiums on insurance policies on his life in an aggregate amount sufficient to pay Packard's liability in the event of his death, and in such event, Packard's obligation is reduced to the extent that the proceeds of such policies are payable directly to his beneficiaries.

Packard Stock Options

Since the beginning of the last fiscal year, no stock options have been granted by Packard to, or exercised by, any officer or director of Packard named in the table above. Between January 1, 1953 and date, the Board of Directors granted stock options covering 85,000 shares of common stock without par value to six officers of the Company, exercisable within five years. The option prices (which were in no case less than 95% of market values on the granting date) were as follows:

Granting Date of Options	Option Price Per Share	Market Value Per Share on Granting Date*
January 6, 1953.....	\$5.165	\$5.4375
June 13, 1953.....	4.928	5.1875
September 1, 1953.....	4.84	4.4375
April 30, 1954.....	4.84	3.5625

* Mean of the high and low market price on the New York Stock Exchange on the granting date.

The consideration for the granting of these options was either the entering into employment of a new employee or the agreement of an employee to remain in employment at least eighteen months. On the exercise of any such stock option, the option price must be paid in full within five years. A promissory note must be delivered to the Company for any unpaid portion of the purchase price and the purchased shares pledged as collateral. The options are restricted with respect to exercise and transferability in order to meet the requirements of Section 130A of the Internal Revenue Code.

EMPLOYEE PENSION AND OTHER PLANS

After consummation of the Purchase Agreement, employees of Studebaker-Packard will be covered by the present pension plans, group insurance plans and other employee plans of Packard and Studebaker. For the immediate period following the consummation of the Purchase Agreement, it is expected that these pension plans will be kept separate and will continue to apply only to the groups of employees to which they presently apply. The benefit provisions and costs of the principal plans of Packard and Studebaker are summarized below.

Packard Pension and Retirement Plans

Packard is a party to noncontributory pension plans covering both hourly-rated and salaried employees. These plans are similar to those generally adopted by the automobile industry and provide for a monthly pension at normal retirement of \$1.75 for each year of credited service, not in excess of 30 years. Provision is made under the plans for minimum monthly pensions, including the employee's primary old-age insurance benefit payable under the Federal Social Security Act, of \$4.00 for each year of credited service, not in excess of 25 years.

Normal retirement age is 65. Provision is made for retirement prior to that time, at the option of the employee or the Company or under mutually satisfactory conditions or in the event of total and permanent disability.

In addition to the noncontributory pension plans, an elective contributory retirement plan is in effect for salaried employees not represented by a union, and whose base salary is in excess of \$3,600 a year. Each participating employee who contributes 5% of the excess of his base salary over \$3,600 a year will receive an annual income from normal retirement at age 65 based on 0.75% of the excess over \$3,600 of the annual base salary for the year 1950 multiplied by the number of years of credited service prior to August 1, 1951, and 1.5% of the excess over \$3,600 of the annual base salary received subsequent to that date. Reduced benefits will apply in the case of early retirement, and no employee shall receive a retirement income in excess of \$12,000 a year.

There were 12,061 hourly-rated and 2,573 salaried employees covered under the noncontributory pension plans and 1,006 salaried employees covered under the contributory retirement plan as of December 31, 1953.

The Company funds the plans by payments to a trustee. The total unfunded cost of the above plans, as estimated by independent actuaries, was \$15,709,000 as of April 1, 1954. If the past service costs were to be funded from inception over a period of 25 years under the non-contributory pension plans and 30 years under the contributory retirement plan, the total annual past service cost payment would be approximately \$1,320,000. The current annual cost of funding future service benefits is estimated to be \$850,000. The cost of funding both past and future service will vary due to factors such as number of covered employees, wages paid, employment turnover, mortality experience and interest rates.

Packard Group Insurance Program

Employees represented by the UAW-CIO as well as substantially all other employees of the Company are covered by an insurance program providing group life insurance, hospital and surgical insurance and accident and sickness benefits for employees and hospital and surgical benefits for their dependents. The Company contributes towards the cost of this program.

Studebaker Pension Plans

Studebaker presently has in effect Pension Plans for Hourly Rated Employees and a Pension Plan for Salaried Employees.

The Hourly Rated Employees Plans are noncontributory. The amount of monthly pension payable on normal retirement is \$1.75 for each year of credited service up to a maximum of 30 years of such service subject to a minimum, inclusive of the primary old-age insurance benefit payable under the Federal Social Security Act, of \$4 for each year of credited service up to a maximum of 25 years. Normal retirement age is 65. Retirement prior to that date at the employee's option or at the option of Studebaker or in the event of permanent and total disability is provided in certain cases.

The Pension Plan for Salaried Employees provides both noncontributory and contributory pensions. Noncontributory pensions are payable to salaried employees on substantially the same bases as they are paid to hourly rated employees. Contributory pensions are payable to salaried employees whose pay exceeds \$3,600 a year and who elect to contribute 3% of such excess. The annual contributory pension is 1.3% of the aggregate of the compensation upon which the employee has made contributions (plus in the case of certain employees who participated in Studebaker's Retirement Annuity Plan prior to November 1, 1950, supplemental annuities purchased by Studebaker to provide minimum benefits) subject to a maximum contributory pension of \$25,000 a year. Reduced benefits are payable in the case of certain early retirements.

As of December 31, 1953, there were 14,906 hourly rated and 3,807 salaried active employees covered by the Plans.

Estimates of the costs of noncontributory pensions payable under the Plans have been prepared by an independent actuary using a method under which the cost of such pensions is divided into two parts, one for future service beginning November 1, 1950 (the effective date of the Plans as now in effect), and the other for past service before that date, and assuming the continuance of Federal Social Security on the basis of the Act as now amended. The total unfunded cost for past service, expressed in a lump sum as of May 31, 1954, is calculated by the actuary to be \$21,341,255. If the past service costs for noncontributory pensions under the Plans were to be funded over a period of 30 years, the annual payment would be \$1,173,972. In addition, it is estimated that as of May 31, 1954, the unfunded cost of supplemental annuities for certain salaried employees under the Pension Plan for Salaried Employees was \$209,613. The annual estimated cost to Studebaker of funding future service benefits under the Plans on the basis of current levels of employment and compensation is \$1,238,989. It is to be recognized that the cost of the Plans will, of course, vary by reason of changes from time to time in the number of employees covered, their wages, actual rates of employment turnover, rates of earnings and other factors such as interest rates, mortality rates and methods of financing used.

Studebaker Group Insurance Programs

The hourly rated employees at Studebaker's plants at South Bend, Indiana, and Los Angeles, California, and at Chicago, Illinois, are covered by group insurance programs, administered by the unions representing such employees, which provide group life insurance, hospital and surgical, and accident and sickness benefits for employees and substantially similar benefits for eligible dependents. Similar group insurance programs, administered by Studebaker, cover hourly rated employees at its New Brunswick plant and the plant of Studebaker's Canadian subsidiary. Salaried employees of Studebaker and its Canadian subsidiary, and dependents of such employees, are likewise covered by group insurance programs, providing substantially the same benefits given to hourly rated employees. Studebaker and its subsidiary contribute toward the cost of all these programs.

VOTING PROCEDURES

The Board of Directors has fixed July 9, 1954, at 3:00 o'clock, P.M., Eastern Standard Time, as the record date for determination of the holders of shares of stock outstanding entitled to notice of, and to vote at, the Special Meeting.

The Company had outstanding as of July 1, 1954, 14,491,340 shares of Common Stock, without par value, each of which is entitled to one vote at all meetings of shareholders. Every shareholder of Common Stock is entitled to vote the number of shares owned by him for as many persons as there may be directors to be elected, or to accumulate said shares and give one nominee as many votes as will equal the number of directors multiplied by the number of shares of his stock, or to distribute them on the same principle among as many nominees as he shall think fit.

Shares represented by valid proxies received pursuant to this Proxy Statement will be voted at the Special Meeting in accordance with specifications made thereon, or in favor of each of the proposals if no specification is made.

It is the intention of persons named in the accompanying form of proxy to vote such proxy at the Special Meeting for the election as directors of the 8 nominees referred to under "Directors and Management" above, and if necessary, to exercise cumulative voting rights to secure their election as directors of the Company. In the event that any of the nominees become unavailable for any reason, which the Management does not contemplate, it is intended that, pursuant to the accompanying Proxy, votes will be cast for substitute nominees designated by the present Board of Directors. In this connection, it should be pointed out that the Purchase Agreement provides that such substitute nominees will be designated by the Board of Directors of Studebaker.

If the enclosed form of Proxy is executed and returned, it may nevertheless be revoked at any time before it has been voted, upon written notice to the Secretary of the Company.

REFERENCE TO FINANCIAL STATEMENTS

This Proxy Statement includes the financial statements listed on page F-1. Additional financial statements of Packard and Studebaker are on file with the Securities and Exchange Commission, Washington, D. C., and the New York Stock Exchange, and in the case of Packard with the Detroit Stock Exchange.

COST AND METHOD OF PROXY SOLICITATION

The entire expense of preparing, assembling, printing and mailing this proxy material will be paid by the Company. In addition to the solicitation of proxies by use of the mails, directors, and not more than ten officers and regular employees of the Company may solicit proxies by telephone, telegraph or personal interview, and the expense of such solicitation will be borne by the Company. In addition, the Company has retained the organization of Dudley F. King, assisted by approximately 80 persons for limited periods, to aid in the solicitation of proxies of shareholders, other than nominees and brokers. The Company has also retained The Kissel Organization, assisted by approximately 15 persons for limited periods, to aid in the solicitation of proxies of nominees and brokers. Dudley F. King and assistants and The Kissel Organization will solicit proxies by personal interview, mail, telephone and telegraph. The Company and The Kissel Organization will request brokers and other custodians, nominees and fiduciaries to forward proxy-soliciting material to the beneficial owners of shares held of record by such persons and will reimburse such persons for their expenses. For the services and expenses of the organization of Dudley F. King and The Kissel Organization, the Company will pay a total amount estimated not to exceed \$62,000.

OTHER MATTERS

So far as the Management is aware, no other matters will be brought before the meeting. Should any other matters come before the meeting, however, action may be taken thereon pursuant to Proxies in the form enclosed, which confer discretionary authority upon the persons named therein or their substitutes with respect to any matters which may properly come before the meeting.

Unless you will attend the meeting in person, please fill in, sign, and return the proxy in the accompanying addressed envelope, which requires no further postage if mailed in the United States. Your cooperation in giving this matter your prompt attention will be appreciated.

July 9, 1954.

ROBERT BLYTHIN
Secretary

**CERTIFICATE OF AMENDMENT TO THE
ARTICLES OF INCORPORATION**

of

PACKARD MOTOR CAR COMPANY

REGISTERED OFFICE: 1580 East Grand Boulevard, Detroit, Michigan.

We, the undersigned, being the President and Secretary of PACKARD MOTOR CAR COMPANY, a corporation existing under the provisions of Act No. 327 of the Public Acts of 1931, as amended, do hereby certify, as required by said act:

That at a meeting of the shareholders of said corporation duly called and held on the 17th day of August, A. D. 1954, it was resolved by the vote of two-thirds of the shares of each class entitled to vote and by two-thirds of the shares of each class whose rights, privileges or preferences are changed thereby that ARTICLES Nos. II and IV of the Articles of Incorporation be and the same are amended to read as follows, viz.:

ARTICLE II

The purpose or purposes of this corporation are as follows:

(1) To manufacture, repair, own, sell and otherwise deal in engines, motors, automobiles, motor carriages and trucks, and any other machines or equipment to be used either for land, water or aerial transportation, and all parts or accessories used in connection therewith or pertaining thereto.

(2) To manufacture, buy, sell, develop, import or export, own, use or otherwise deal or traffic in, any and all kinds of machines, machinery, appliances, instruments, apparatus and automobile parts, accessories, equipment and supplies; and, in general, to manufacture, buy, sell, develop, import or export, own, use or otherwise deal or traffic in, any and all metals, minerals, chemicals, petroleum or any materials connected with any of the foregoing and any or all products or articles consisting of any of the foregoing, and to manufacture, buy, sell, develop, import or export, own, use or otherwise deal or traffic in, goods, wares and merchandise of every kind and description.

(3) To such extent as a corporation organized under the Michigan General Corporation Act may now or hereafter lawfully do, either as principal or agent and either alone or in connection with other corporations, firms or individuals, to do all and everything necessary, suitable, convenient or proper for, or in connection with, or incident to, the accomplishment of any of the purposes or the attainment of any one or more of the objects above enumerated, or designed directly or indirectly to promote the interests of the corporation or to enhance the value of its properties; and in general to do any and all things and exercise any and all powers, rights and privileges which a corporation may now or hereafter be organized to do or to exercise under the Michigan General Corporation Act or any act amendatory thereof, supplemental thereto or substituted therefor.

ARTICLE IV

The total authorized capital stock is Fifteen Million (15,000,000) shares of Common Stock with a par value of Ten Dollars (\$10) per share.

The following is a description of each class of stock of the corporation with the voting powers, preferences and rights, and the qualifications, limitations or restrictions thereof:

There shall be but one class of stock, being stock with a par value of Ten Dollars (\$10) per share divided into Fifteen Million (15,000,000) shares. Holders thereof shall be entitled to vote for directors and shall also be entitled to participate in dividends when and as declared and in the assets of the corporation upon liquidation after all indebtedness and obligations of the corporation have been paid and discharged.

The holders of the Common Stock of the corporation shall, as such, have the right pro rata according to their respective holdings of Common Stock of the corporation, and on such terms and conditions as the Board of Directors may determine, to purchase or subscribe for any of the authorized but unissued shares of stock of the corporation which the corporation shall sell or issue for cash, other than up to 400,000 shares to be reserved by the Board of Directors for issuance to officers and employees of the corporation. For the purposes of this ARTICLE IV, the issuance or sale by the corporation, whether for cash or otherwise, of any options, warrants or other instruments which shall entitle the respective holders or owners thereof to subscribe for or purchase for cash any shares of stock of the corporation of any class, shall be deemed to be an issue for cash of the shares purchasable under or which may be subscribed for pursuant to such options, warrants or other instruments; but the issuance or sale by the corporation, whether for cash or otherwise, of any bond, note, debenture or other evidence of indebtedness, which may be exchangeable for or convertible into shares of stock of the corporation of any class shall not be deemed to be an issue of stock for cash, either upon the issue of such evidence of indebtedness or upon the issue of stock pursuant to the exercise of any rights of exchange or conversion appurtenant thereto; and the issuance by the corporation of any shares of capital stock in payment for assets or property of any kind shall not be deemed to be an issuance for cash, even though a portion of such assets or property shall consist of cash. Except as hereinabove in this ARTICLE IV expressly provided, no holder of Common Stock of the corporation shall have any pre-emptive right whatsoever nor shall such holder as such holder, have any right to purchase or subscribe for any shares of stock of the corporation of any class or any obligations or instruments which the corporation may issue or sell that shall be convertible into or exchangeable for or entitle the holders thereof to purchase or subscribe for any shares of stock of the corporation of any class. Any of the authorized but unissued shares of stock, which the holders of Common Stock of the corporation have the right to purchase or subscribe for according to their respective holdings, as aforesaid, may be released from such pre-emptive rights by the vote or written consent of the holders of two-thirds of the issued and outstanding shares of such stock or by the required vote or written consent of such holders as may at the time be provided by Michigan law, if such requirement be less than two-thirds.

The amount of paid-in capital of this corporation is Thirty Million Dollars (\$30,000,000).

When the amendment of this ARTICLE IV becomes effective to authorize Fifteen Million (15,000,000) shares of Common Stock of a par value of Ten Dollars (\$10) per share, each share of the common stock without par value (including shares held in the treasury of the corporation) issued immediately prior thereto is hereby changed and reclassified into one-fifth of a share of Common Stock of a par value of Ten Dollars (\$10) per share, so that the 14,491,340 shares of common stock, without par value, issued and outstanding, and the 508,660 shares of Common Stock, without par value, issued and held in the treasury of the corporation, will be changed and reclassified respectively into 2,898,268 shares of Common Stock with a par value of Ten Dollars (\$10) per share, which shall be issued and outstanding, and 101,732 shares of Common Stock with a par value of Ten Dollars (\$10) per share, which shall be issued and held in the treasury.

Certificates for the necessary number of shares of Common Stock of a par value of Ten Dollars (\$10) per share shall be issued at the rate of one share thereof for each five shares of common stock without par value (including shares held in the treasury of the corporation) issued immediately prior to the taking effect of said amendment. The holders of outstanding certificates representing shares of common stock without par value shall surrender the same to the corporation for cancellation and shall receive and accept in place thereof certificates for shares of Common Stock with a par value of Ten Dollars (\$10) per share at the foregoing rate; provided however, that in lieu of issuing to any such holder a certificate representing less than a whole share of Common Stock of a par value of Ten Dollars (\$10) per share, the corporation shall issue to or upon the order of such holder a scrip certificate, which scrip certificates shall be exchangeable together with other scrip

certificates in amounts aggregating one or more full shares of Common Stock of the par value of Ten Dollars (\$10) per share, for a certificate for the full number of such shares called for thereby, and shall be in such form, expire on such date, and otherwise contain such terms and provisions as the Board of Directors of the corporation shall approve.

IN WITNESS WHEREOF, we hereunto sign our names this

day of August, A. D. 1954.

PACKARD MOTOR CAR COMPANY

(President)

(Secretary)

STATE OF MICHIGAN }
COUNTY OF WAYNE } ss.:

On this day of August, 1954, before me a Notary Public in aforesaid County, appeared JAMES J. NANCE, President of the Packard Motor Car Company, known to me to be the person named in and who executed the foregoing instrument and acknowledged that he executed the same freely and for the intents and purposes therein mentioned.

**CERTIFICATE OF AMENDMENT TO THE
ARTICLES OF INCORPORATION
of
PACKARD MOTOR CAR COMPANY**

REGISTERED OFFICE: 1580 East Grand Boulevard, Detroit, Michigan.

We, the undersigned, being the President and Secretary of PACKARD MOTOR CAR COMPANY, a corporation existing under the provisions of Act No. 327 of the Public Acts of 1931, as amended, do hereby certify, as required by said act:

That at a meeting of the shareholders of said corporation duly called and held on the 17th day of August, A.D. 1954, it was resolved by the vote of two-thirds of the shares of each class entitled to vote and by two-thirds of the shares of each class whose rights, privileges or preferences are changed thereby that Article No. I of the Articles of Incorporation be and the same is amended to read as follows, viz:

ARTICLE I

The name of this corporation is Studebaker-Packard Corporation.

IN WITNESS WHEREOF, we hereunto sign our names this day of August, A.D. 1954.

PACKARD MOTOR CAR COMPANY

.....
(President)

.....
(Secretary)

STATE OF MICHIGAN }
COUNTY OF WAYNE } ss.:

On this day of August, 1954, before me a Notary Public in aforesaid County, appeared James J. Nance, President of the Packard Motor Car Company, known to me to be the person named in and who executed the foregoing instrument and acknowledged that he executed the same freely and for the intents and purposes therein mentioned.

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AUDITORS' REPORT

To the Board of Directors of

THE STUDEBAKER CORPORATION

We have examined the consolidated balance sheet of The Studebaker Corporation and subsidiary companies as at December 31, 1953, and the related consolidated statements of income and surplus for the three years then ended. We have also examined the consolidated summaries of "Net Sales and Other Income", "Income Before Taxes", "Provision for Income Taxes", "Net Income" and "Book Value" for the years 1947 through 1953 given for The Studebaker Corporation (consolidated) under the caption "Comparative Data" in this Proxy Statement. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, and the notes thereto, present fairly the financial position of The Studebaker Corporation and subsidiary companies at December 31, 1953, and the results of their operations for the three years then ended, and the consolidated summaries of "Net Sales and Other Income", "Income Before Taxes", "Provision for Income Taxes", "Net Income" and "Book Value" appearing under "Comparative Data" in this Proxy Statement presents fairly the results of operation of the Corporation and subsidiary companies from January 1, 1947 to December 31, 1953, in conformity with generally accepted accounting principles applied each year on a basis consistent with that of the preceding year.

SCOVELL, WELLINGTON & COMPANY

June 7, 1954

THE STUDEBAKER CORPORATION
and Subsidiary Companies

CONSOLIDATED BALANCE SHEETS

April 30, 1954 (Unaudited) — December 31, 1953 (Audited)

ASSETS

	<u>April 30, 1954</u>	<u>December 31, 1953</u>
CURRENT ASSETS:		
Cash on hand and on deposit	\$ 16,858,902	\$ 29,479,772
Sight drafts outstanding	2,805,304	1,811,318
Accounts and acceptances receivable, trade, less reserves of—\$139,733, April 30, 1954; \$141,124, December 31, 1953	2,095,122	2,443,768
Accounts receivable from United States Government	4,068,390	1,302,859
Recoverable portion of Federal and foreign taxes paid on income of prior year	1,896,533	—
Other receivables, deposits, etc.	1,823,350	2,734,478
Inventories, at cost (which in the aggregate is lower than replacement market prices), less reserves of—\$2,326,678, April 30, 1954; \$2,920,547, December 31, 1953—Note 1	53,096,112	72,525,615
Prepaid expenses	654,984	612,032
	<u>\$ 83,298,697</u>	<u>\$110,909,842</u>
Deduct: Progress collections on United States Government contracts	—	17,180,189
Total Current Assets	<u>\$ 83,298,697</u>	<u>\$ 93,729,653</u>
NON-CURRENT INVESTMENTS	<u>\$ 765,200</u>	<u>\$ 765,200</u>
PROPERTY, PLANT AND EQUIPMENT (including land \$1,315,659) at ap- praised values as at March 8, 1935, with subsequent additions at cost, less amortization—Note 5	\$ 93,660,185	\$ 97,640,491
Less reserves for depreciation	34,077,389	32,452,148
	<u>\$ 59,582,796</u>	<u>\$ 65,188,343</u>
Less reserve for loss on demolition, disposal and change in use of property and facilities, and carrying charges on property held for sale	1,836,019	1,836,019
Total Property, Plant and Equipment	<u>\$ 57,746,777</u>	<u>\$ 63,352,324</u>
TRADE NAME, GOOD WILL AND PATENT RIGHTS	\$ 1	\$ 1
	<u>\$141,810,675</u>	<u>\$157,847,178</u>

(See notes to financial statements.)

THE STUDEBAKER CORPORATION
and Subsidiary Companies

CONSOLIDATED BALANCE SHEETS

April 30, 1954 (Unaudited) — December 31, 1953 (Audited)

LIABILITIES AND NET WORTH

	<u>April 30, 1954</u>	<u>December 31, 1953</u>
CURRENT LIABILITIES:		
3½% Sinking fund debentures payable within one year.....	\$ 750,000	\$ 750,000
Accounts payable, trade.....	11,918,829	16,792,772
Accrued expenses:		
Taxes	3,397,731	3,749,679
Payrolls	2,876,749	2,981,645
Other	2,479,236	6,074,799
Federal and foreign taxes on income.....	2,423,044	3,329,876
Customers' deposits and credit balances.....	12,211,523	7,485,925
Other current liabilities.....	1,181,932	1,472,122
Total Current Liabilities	<u>\$ 37,239,044</u>	<u>\$ 42,636,818</u>
3½% SINKING FUND DEBENTURES DUE DECEMBER 1, 1966.....	<u>\$ 6,750,000</u>	<u>\$ 6,750,000</u>
NET WORTH:		
Preferred stock:		
Authorized but unissued 200,000 shares without par value		
Common stock:		
Authorized 5,000,000 shares, par value \$1.00 each		
Outstanding 2,361,458 shares—Note 3.....	\$ 2,361,458	\$ 2,361,458
Capital surplus	18,344,852	18,344,852
Earned surplus—Notes 4 and 6.....	77,115,321	87,754,050
Total Net Worth	<u>\$ 97,821,631</u>	<u>\$108,460,360</u>
	<u>\$141,810,675</u>	<u>\$157,847,178</u>

(See notes to financial statements.)

THE STUDEBAKER CORPORATION
and Subsidiary Companies

CONSOLIDATED INCOME STATEMENT

For the Four Months Ended April 30, 1954 (Unaudited)
For the Years Ended December 31, 1953, 1952 and 1951 (Audited)

	Four Months ended April 30, 1954	1953	1952	1951
Net Sales	\$ 92,363,856	\$594,249,552	\$585,313,447	\$503,308,866
Other Income	89,066	831,318	804,316	703,664
	<u>\$ 92,452,922</u>	<u>\$595,080,870</u>	<u>\$586,117,763</u>	<u>\$504,012,530</u>
Deduct:				
Cost of sales, including amortization of special tools, dies, etc. (Notes 1 and 5)	\$ 95,542,499	\$564,723,411	\$536,123,347	\$464,089,691
Provision for depreciation (Note 5).....	1,644,915	4,809,442	4,448,412	3,929,742
Selling, advertising and general admini- strative expenses	6,452,320	19,479,376	15,339,929	12,380,533
Commitment fee — Credit Agreement	40,274	207,789	279,713	—
Interest on debentures.....	78,125	255,860	279,297	295,573
Other income deductions.....	255,228	665,680	661,059	763,008
	<u>\$104,013,361</u>	<u>\$590,141,558</u>	<u>\$557,131,757</u>	<u>\$481,458,547</u>
Interest income, less other interest expense	(4,072)	98,661	135,783	419,147
	<u>\$104,017,433</u>	<u>\$590,042,897</u>	<u>\$556,995,974</u>	<u>\$481,039,400</u>
Income (Loss) for period before provision for Federal and foreign taxes on income....	(\$ 11,564,511)	\$ 5,037,973	\$ 29,121,789	\$ 22,973,130
Provision for Federal and foreign taxes on income	(1,870,000)	2,350,000	14,830,000	10,350,000
Net Income (Loss) for period (Note 6).....	<u>(\$ 9,694,511)</u>	<u>\$ 2,687,973</u>	<u>\$ 14,291,789</u>	<u>\$ 12,623,130</u>

(See notes to financial statements.)

THE STUDEBAKER CORPORATION
and Subsidiary Companies

CONSOLIDATED SURPLUS STATEMENT

For the Four Months Ended April 30, 1954 (Unaudited)
For the Years Ended December 31, 1953, 1952 and 1951 (Audited)

CAPITAL SURPLUS

	Four Months ended April 30, 1954	1953	1952	1951
Balance at beginning of year.....	\$18,344,852	\$18,297,602	\$18,155,852	\$18,155,851
Arising from issuance of Common Stock in exchange for securities of predecessor cor- poration	—	—	—	1
Arising from subscription of shares of Common Stock at \$32.50 per share pursuant to pro- visions of Restricted Stock Option Plan for key employees	—	47,250	141,750	—
(1500 shares 1953)				
(4500 shares 1952)				
Balance at end of period.....	<u>\$18,344,852</u>	<u>\$18,344,852</u>	<u>\$18,297,602</u>	<u>\$18,155,852</u>

EARNED SURPLUS

Balance at beginning of year.....	\$87,754,050	\$92,147,697	\$84,920,626	\$79,361,035
Net Earnings (Loss) for period.....	(9,694,511)	2,687,973	14,291,789	12,623,130
	<u>\$78,059,539</u>	<u>\$94,835,670</u>	<u>\$99,212,415</u>	<u>\$91,984,165</u>
Cash Dividend:				
1954 \$0.40 per share.....	944,218	—	—	—
1953 3.00 " "	—	7,081,620	—	—
1952 3.00 " "	—	—	7,064,718	—
1951 3.00 " "	—	—	—	7,063,539
Balance at end of period (Notes 4 and 6).....	<u>\$77,115,321</u>	<u>\$87,754,050</u>	<u>\$92,147,697</u>	<u>\$84,920,626</u>

(See notes to financial statements.)

THE STUDEBAKER CORPORATION
and Subsidiary Companies

NOTES TO FINANCIAL STATEMENTS

NOTE 1: In accordance with trade practice, the inventory of service parts includes a portion which will not be sold within one year. This condition comes about through manufacturing and placing in service stock sufficient parts to fill requirements for the life of the car in cases where special tooling is required in the manufacture of the parts. Inventories have been priced at cost, which in the aggregate is lower than replacement market prices. Such cost was determined on the first-in, first-out method and, after provision for obsolescence and other reserves. Major classifications of inventories as of April 30, 1954, and December 31, 1953, were as follows:

	April 30, 1954	December 31, 1953
Civilian:		
Raw material and work in progress.....	\$18,797,703	\$24,309,432
Finished Products:		
Cars and Trucks.....	\$15,932,082	\$12,143,945
Parts and accessories.....	11,589,485	14,109,475
	\$27,521,567	\$26,253,420
Manufacturing supplies	\$ 3,809,457	\$ 4,149,490
Total Civilian:	\$50,128,727	\$54,712,342
National Defense:		
Raw materials and work in progress.....	\$ 536,349	\$12,472,221
Finished Products—including spare parts.....	1,233,498	4,109,094
Manufacturing supplies	1,197,538	1,231,958
Total National Defense:	\$ 2,967,385	\$17,813,273
Total:	\$53,096,112	\$72,525,615

The above amounts are net of reserves in the sum of \$2,326,678 for April 30, 1954, and \$2,920,547 for December 31, 1953. Costs of inventories on the above basis as of December 31, 1952, December 31, 1951 and December 31, 1950, were \$63,890,660.38, \$59,095,225.18 and \$42,939,912.68, respectively.

NOTE 2: Pending litigation is not of a material nature, and, in the opinion of the management of the Corporation, it is unlikely that there will be any material recovery from the Corporation or its subsidiaries.

NOTE 3: The shares of common stock, shown as outstanding at December 31, 1953 and April 30, 1954, include those heretofore issued and also 914 shares estimated to be issuable hereafter in respect of securities of the predecessor corporation. In addition to shares so issuable, there were reserved unissued at December 31, 1953 and April 30, 1954 (a) 17,466 shares for sale to or use as compensation to officers and employees under such terms and conditions as the board of directors may from time to time determine, and (b) 144,000 shares of common stock under the Restricted Stock Option Plan for key employees. As at December 31, 1953, options had been granted to officers and key employees under the Plan for 110,000 shares at a purchase price of \$32.50 per share. As at April 30, 1954, options for 3,000 shares had been canceled, leaving options outstanding for 107,000 shares, none of which have been exercised. The following information is furnished with respect to options exercised:

Date Exercised	Number of Shares	Price per Share	Total Price	Fair Value per Share	Total Fair Value
Oct. 17, 1952.....	1,500	\$32.50	\$ 48,750	\$35.75	\$ 53,625.00
Nov. 21, 1952.....	1,500	32.50	48,750	35.38	53,062.50
Dec. 10, 1952.....	1,500	32.50	48,750	38.50	57,750.00
Jan. 6, 1953.....	1,500	32.50	48,750	39.50	59,250.00
	6,000		\$195,000		\$223,687.50

NOTES TO FINANCIAL STATEMENTS — Continued

The fair values per share shown are the closing market prices of the stock on the New York Stock Exchange on the dates shown. In connection with the exercise of these options, Common Stock was credited \$1 per share, for a total of \$6,000, and capital surplus was credited \$31.50 per share, for a total of \$189,000. There were no entries made to the income accounts in connection with these options.

NOTE 4: Under the Indenture covering the issuance of the Debentures, the Corporation shall not, after December 31, 1946, pay dividends on its common stock (other than in stock) or apply funds to the purchase thereof in excess of consolidated net profits subsequent to that date, plus \$1,500,000, or in any case where such a dividend or purchase would reduce consolidated working capital below \$18,750,000 or 125% of consolidated funded debt. The unrestricted surplus available for dividends at December 31, 1953, amounted to \$69,134,110.43 and at April 30, 1954, amounted to \$58,495,381.36.

NOTE 5: Depreciation on plants and properties, other than tools, dies, jigs, fixtures and equipment substantially affected by change of models, is charged to current operations at rates which are sufficient to extinguish the book values of the plants and properties at the end of their anticipated useful life. The cost of tools, dies, jigs, fixtures and equipment affected by change of models is amortized over their estimated period of usefulness. Depreciation and amortization is calculated on a straight-line basis. Expenditures for maintenance and repairs are charged direct to operations at the time of the expenditure while those for renewals and betterments are capitalized. The reserves for depreciation and amortization of property, plant and equipment are adjusted at the time properties are retired or disposed of by charging the asset value direct to the reserve account in connection with normal retirements and by charging the reserve with the accumulated depreciation on property and equipment scrapped or otherwise disposed of. Any difference between such charge to the reserve and the asset value is carried to current operations as gain or loss on disposal of capital assets. No depreciation or amortization is provided for intangibles as such assets are carried by the Corporation at a nominal value of \$1.00 and there are no such assets recorded on the books of the subsidiary companies.

Property, plant and equipment at April 30, 1954, is summarized by major classifications as follows:

Land	\$ 1,315,659
Land Improvements	1,585,933
Buildings	14,857,790
Building Fixtures	6,706,448
Machinery, Tools and Equipment	64,184,306
Transportation Equipment	1,851,334
Office Equipment	2,924,892
Construction in Progress	233,823
	<hr/>
	\$93,660,185
Less Reserves for Depreciation	34,077,389
	<hr/>
	\$59,582,796

NOTE 6: The Corporation's profits for 1951, 1952 and 1953, and for the four months ended April 30, 1954, are subject to adjustments on account of renegotiation of Government contracts. However, it is not expected that such renegotiation will affect materially the financial statements as presented.

NOTE 7: The consolidated balance sheet and the consolidated income and surplus statements include the accounts of the Corporation and its domestic and foreign subsidiaries. The subsidiaries included are wholly owned. Current assets and current liabilities of The Studebaker Corporation of Canada, Ltd., are included at par of exchange while fixed assets purchased since September 19, 1949, have been included at the applicable rate of exchange at time of purchase. All other assets and liabilities are included at par of exchange. All the accounts of Studebaker de Mexico, S. A., have been included at the commercial rate of exchange in effect at the applicable date. The profit and loss accounts of foreign subsidiaries have been included after converting at applicable rates of exchange. Inter-company profits in inventories and transactions arising through inter-company sales and other dealings between the Corporation and its subsidiaries, have been eliminated in preparing the consolidated statements.

NOTE 8: SUPPLEMENTARY PROFIT AND LOSS INFORMATION — All expenditures and expenses covering maintenance and repairs, depreciation, depletion and amortization, taxes (other than Federal and foreign taxes on income), rents and royalties

NOTES TO FINANCIAL STATEMENTS — Continued

were charged directly to profit and loss (cost of goods sold and other profit and loss accounts). These expenditures and expenses are set forth in the following table:

	Four Months ended April 30, 1954	Year 1953	Year 1952	Year 1951
Maintenance and repairs:				
Charged to cost of goods sold.....	\$1,582,306	\$ 7,984,885	\$ 7,095,325	\$ 6,519,930
Charged to profit and loss — other.....	26,614	91,776	107,510	97,880
	<u>\$1,608,920</u>	<u>\$ 8,076,661</u>	<u>\$ 7,202,835</u>	<u>\$ 6,617,810</u>
Depreciation, depletion and amortization of fixed and intangible assets or charges in lieu thereof:				
Charged to cost of goods sold.....	\$6,541,920	\$17,765,223	\$ 7,959,548	\$ 9,139,319
Charged to profit and loss — other.....	48,987	146,980	115,170	107,589
	<u>\$6,590,907</u>	<u>\$17,912,203</u>	<u>\$ 8,074,718</u>	<u>\$ 9,246,908</u>
Taxes, other than Federal and foreign taxes on income:				
Charged to cost of goods sold (see Note a).....	\$6,395,835	\$44,732,672	\$49,055,352	\$36,617,872
Charged to profit and loss — other.....	202,120	340,188	560,233	336,296
	<u>\$6,597,955</u>	<u>\$45,072,860</u>	<u>\$49,615,585</u>	<u>\$36,954,168</u>
Analysis of taxes included above:				
Real and personal property taxes.....	\$ 471,219	\$ 1,426,972	\$ 1,282,547	\$ 1,134,611
Federal and state social security taxes.....	833,687	2,175,720	1,874,989	2,089,455
Manufacturer's excise taxes (see Note a).....	3,894,539	35,645,212	40,082,775	28,984,855
Indiana Gross Income taxes (see Note a).....	46,230	1,084,337	1,365,636	480,963
Miscellaneous taxes.....	41,310	96,661	352,422	126,919
Foreign property, sales and excise taxes (see Note a).....	1,310,970	4,643,958	4,657,216	4,137,365
	<u>\$6,597,955</u>	<u>\$45,072,860</u>	<u>\$49,615,585</u>	<u>\$36,954,168</u>
Rents (see Note b):				
Charged to cost of goods sold.....	\$ 254,285	\$ 646,381	\$ 553,581	\$ 462,427
Charged to profit and loss — other.....	164,902	451,380	379,578	353,530
	<u>\$ 419,187</u>	<u>\$ 1,097,761</u>	<u>\$ 933,159</u>	<u>\$ 815,957</u>
Royalties:				
Charged to cost of goods sold.....	\$ 8,086	\$ 47,365	\$ 50,945	\$ 30,591
Charged to profit and loss — other.....	—	—	—	—
	<u>\$ 8,086</u>	<u>\$ 47,365</u>	<u>\$ 50,945</u>	<u>\$ 30,591</u>

NOTE a. Includes taxes on sales to customers.

NOTE b. The aggregate annual rentals upon all real property leased to The Studebaker Corporation and its subsidiaries for terms expiring more than three years after April 30, 1954, amount to \$460,603 under twenty-four leases.

NOTE 9: The Corporation believes that all adjustments necessary to state fairly the results of operations for the four months ended April 30, 1954, have been reflected in the Consolidated Income Statement for such period and that the loss reported has been determined in conformity with accounting principles applied in earlier accounting periods.

NOTE 10: Reference is made to "EMPLOYEE PENSION AND OTHER PLANS"; "Studebaker Pension Plans" in the foregoing Proxy Statement for certain information with respect to the Corporation's Pension Plans.

REPORTS OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors,
PACKARD MOTOR CAR COMPANY,
Detroit, Michigan.

We have examined the consolidated balance sheet of Packard Motor Car Company and its subsidiary as of December 31, 1953, and the related statements of income and income retained for the period of two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm receivables from the United States Government by direct correspondence, as to which receivables we satisfied ourselves by means of other auditing procedures.

In our opinion, the accompanying statements present fairly the consolidated financial position of Packard Motor Car Company and its subsidiary at December 31, 1953, and the consolidated results of their operations for the period of two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have also examined the summaries of "Net Sales and Other Income", "Income Before Taxes", "Provision for Income Taxes", "Net Income" and "Book Value" given for Packard Motor Car Company (Consolidated) for the years 1952 and 1953 under the caption "Comparative Data" in this proxy statement. In our opinion, such summaries fairly present the data shown therein of Packard Motor Car Company and its subsidiary company for the years 1952 and 1953, all in conformity with generally accepted accounting principles applied on a consistent basis.

ERNST & ERNST
Certified Public Accountants

Detroit, Michigan
March 1, 1954

To the Board of Directors and the Shareholders of
PACKARD MOTOR CAR COMPANY:

In our opinion, the accompanying consolidated statements of net earnings and net income retained fairly present the results of operations of Packard Motor Car Company and its subsidiary company for the year ended December 31, 1951, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The examination of such statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The examination did not extend to periods subsequent to December 31, 1951.

We made examinations similar in scope for the years 1947, 1948, 1949 and 1950, and we have also reviewed the summaries of "Net Sales and Other Income", "Income before Taxes", "Provision for Income Taxes", "Net Income" and "Book Value" given for Packard Motor Car Company (consolidated) under the caption "Comparative Data" in this proxy statement for the years 1947, 1948, 1949, 1950 and 1951. In our opinion, such summaries present fairly the data shown therein of Packard Motor Car Company and its subsidiary companies for the years 1947 through 1951, all in conformity with generally accepted accounting principles applied on a consistent basis.

PRICE WATERHOUSE & Co.

Detroit, Michigan
June 22, 1954
as of February 29, 1952

PACKARD MOTOR CAR COMPANY

CONSOLIDATED BALANCE SHEET

April 30, 1954 (Unaudited) — December 31, 1953 (Audited)

	April 30, 1954	December 31, 1953
CURRENT ASSETS:		
Cash	\$ 17,255,532	\$ 24,027,104
United States Government (\$1,184,095 at April 30, 1954 and \$1,241,943 at December 31, 1953) and short-term marketable securities at cost and accrued interest, not over market	4,457,842	5,966,138
Accounts receivable from United States Government	5,327,092	8,845,630
Notes and other accounts receivable, less allowance of \$140,396 at April 30, 1954 and \$100,000 at December 31, 1953.....	5,514,936	5,719,763
Unbilled costs under contracts with United States Government	7,370,894	12,285,388
Inventories at lower of cost (first-in, first-out method) or market (Note 5):		
Raw materials, work in process, service parts and supplies.....	\$20,428,988	\$24,997,514
Automobiles	8,121,526	11,287,312
Prepaid insurance and other expense.....	1,642,739	489,914
Total Current Assets.....	\$ 70,119,549	\$ 93,618,763
ADVANCE TO STEEL SUPPLIER AND MORTGAGES RECEIVABLE	2,305,405	2,640,931
PROPERTIES—at cost, including \$12,324,897 at April 30, 1954 and \$12,306,262 at December 31, 1953, subject to five-year amortization (Note 6):		
Buildings	\$29,574,787	\$29,582,275
Machinery and equipment.....	28,137,885	27,420,754
Less accumulated depreciation and amortization	\$57,712,672	\$57,003,029
Land	33,550,475	34,658,134
Land	5,067,105	39,689,573
	\$111,042,534	\$135,949,267

(See notes to financial statements.)

PACKARD MOTOR CAR COMPANY

CONSOLIDATED BALANCE SHEET

April 30, 1954 (Unaudited) — December 31, 1953 (Audited)

	April 30, 1954	December 31, 1953
CURRENT LIABILITIES:		
Accounts payable and accrued expenses.....	\$ 18,758,521	\$ 30,180,073
Price redetermination refund payable to United States Government	3,925,953	13,555,830
Provision for product warranty on automo- biles and under Government contracts.....	1,055,992	1,057,313
Taxes on income.....	5,412,737	8,215,535
Total Current Liabilities.....	\$ 29,153,203	\$ 53,008,751
SHAREHOLDERS' EQUITY:		
Common stock, no par value:		
Authorized 25,000,000 shares		
Issued 15,000,000 shares	\$30,000,000	\$30,000,000
Capital in excess of stated value of common stock	12,016,721	12,016,721
Net income retained since May 1, 1935, for use in the business.....	42,320,062	43,371,247
	\$84,336,783	\$85,387,968
Less common stock held in treasury (508,660 shares at cost) (Note 2).....	2,447,452	2,447,452
	81,889,331	82,940,516
	<u>\$111,042,534</u>	<u>\$135,949,267</u>

(See notes to financial statements.)

PACKARD MOTOR CAR COMPANY
and its subsidiary

CONSOLIDATED STATEMENT OF NET EARNINGS

For the Four Months Ended April 30, 1954 (Unaudited)
For the Years Ended December 31, 1953, 1952 and 1951 (Audited)

	4 Months Ended April 30, 1954	Year Ended December 31		
		1953	1952	1951
Net sales	\$71,774,100	\$335,819,090	\$233,737,020	\$178,168,319
Other income:				
Interest on investments	59,670	414,203	209,664	442,395
Rentals	62,318	200,081	199,975	384,153
Sundry other income (net)	37,211	183,701	391,684	555,857
	\$ 159,199	\$ 797,985	\$ 801,323	\$ 1,382,405
	\$71,933,299	\$336,617,075	\$234,538,343	\$179,550,724
Costs and expenses:				
Cost of products sold (Notes 5, 6 and 7)	\$67,987,197	\$304,740,275	\$205,774,245	\$155,742,278
Selling, administrative and general expense	6,140,287	19,435,834	16,131,835	12,714,386
	\$74,127,484	\$324,176,109	\$221,906,080	\$168,456,664
Earnings (loss) before taxes on income	(\$ 2,194,185)	\$ 12,440,966	\$ 12,632,263	\$ 11,094,060
Provision for Federal and foreign taxes on income	(1,143,000)	7,000,000	7,014,000	5,122,000
Taxes applicable to deferred pension contributions (Note 1)	—	—	—	378,000
Net earnings (loss) (Note 3)	(\$ 1,051,185)	\$ 5,440,966	\$ 5,618,263	\$ 5,594,060

(See notes to financial statements.)

PACKARD MOTOR CAR COMPANY
and its subsidiary

**CONSOLIDATED STATEMENT OF NET INCOME RETAINED SINCE MAY 1, 1935
FOR USE IN THE BUSINESS**

For the Four Months Ended April 30, 1954 (Unaudited)
For the Years Ended December 31, 1953, 1952 and 1951 (Audited)

	4 Months Ended April 30, 1954	Year Ended December 31		
		1953	1952	1951
Balance at beginning of year.....	\$43,371,247	\$38,328,549	\$34,943,987	\$33,817,329
Net earnings (loss) for the period.....	(1,051,185)	5,440,966	5,618,263	5,594,060
Reserve for contingencies transferred to retained income	—	2,500,000	—	—
	<u>\$42,320,062</u>	<u>\$46,269,515</u>	<u>\$40,562,250</u>	<u>\$39,411,389</u>
Less:				
Cash dividends paid (\$0.30 a share in 1951, \$0.15 in 1952 and \$0.20 in 1953) ..	—	2,898,268	2,233,701	4,467,402
	<u>\$42,320,062</u>	<u>\$43,371,247</u>	<u>\$38,328,549</u>	<u>\$34,943,987</u>

(See notes to financial statements.)

PACKARD MOTOR CAR COMPANY AND CONSOLIDATED SUBSIDIARY

NOTES TO FINANCIAL STATEMENTS

NOTE 1—Pension plans are in effect for substantially all employees. For the years 1953 and 1952 the Company has provided for the maximum contributions under the plans which could be deducted for federal income tax purposes. All of such contributions have been charged against operations for these years, and the balance of \$367,471 of contributions for the year 1951 (\$745,471 less tax applicable thereto of \$378,000), which was deferred in that year, was charged against operations for the year 1952. The unfunded cost of past service under the plans, as estimated by independent actuaries, amounted to approximately \$15,709,000 at April 1, 1954, which amount may be funded over periods of thirty years with respect to salaried employees and twenty-five years as to all other employees from the inception of the plans. Reference is made to statement of annual cost of Packard Pension Plans under "EMPLOYEE PENSION AND OTHER PLANS": "Packard Pension and Retirement Plans", in the foregoing Proxy Statement.

NOTE 2—A total of 377,500 shares at April 30, 1954 and 347,500 shares at December 31, 1953 of common stock in treasury was reserved for options granted to officers and executives permitting purchase of such shares at prices averaging \$4.99 at April 30, 1954 and \$5.01 per share at December 31, 1953, which prices were not less than 95% of the quoted market prices at the dates the options were granted. Options as to all 377,500 shares are now exercisable.

NOTE 3—Sales of approximately \$26,000,000 for the four months ended April 30, 1954, \$142,800,000 for the year 1953 and \$65,500,000 for the year 1952, to the United States Government are subject to renegotiation, but the Company believes that any adjustments resulting therefrom will have no important effect on these financial statements.

NOTE 4—Principles of Consolidation:

The accounts of the Company and its only subsidiary (a Canadian Corporation) have been consolidated herein. The accounts of the subsidiary have been included at appropriate rates of exchange. Intercompany accounts, transactions, and income have been eliminated. The subsidiary is not significant as to either total assets or total revenues.

NOTE 5—Inventories and Cost of Products Sold:

Inventories of raw materials and work in process are shown as a single amount, as it is impracticable to segregate them. Inventories have been stated at the lower of cost or market prices. Cost has been determined by the first-in, first-out method and market represents the lower of replacement market or selling market after allowance for costs of distribution.

The inventories used in computing cost of products sold and the major classifications thereof at December 31, 1950, 1951, 1952 and 1953 and April 30, 1954 were as follows:

	Apr. 30, 1954	December 31,			
		1953	1952	1951	1950
Materials, work in process and finished products:					
Raw materials and work in process.....	\$11,696,233	\$15,883,504	\$17,821,484	\$12,101,799	\$13,796,104
Finished products:					
Automobiles	8,121,526	11,287,312	2,805,735	11,141,463	1,176,899
Service Parts and Accessories.....	8,062,276	8,189,316	4,712,311	5,778,529	4,342,882
Manufacturing Supplies	670,479	924,694	1,496,782	1,199,651	990,451
Total Materials, Work in Process and Finished Products	\$28,550,514	\$36,284,826	\$26,836,312	\$30,221,442	\$20,306,336
Unbilled costs under contracts with the U. S. Government	\$13,830,153	\$30,002,399	\$33,347,441	\$12,187,704	\$ 166,857
Less progress payments.....	6,459,259	17,717,011	9,868,146	5,306,060	—
	\$ 7,370,894	\$12,285,388	\$23,479,295	\$ 6,881,644	\$ 166,857
Total Inventories and Unbilled Costs.....	\$35,921,408	\$48,570,214	\$50,315,607	\$37,103,086	\$20,473,193

NOTES TO FINANCIAL STATEMENTS — (Continued)

NOTE 6—Property, Plant and Equipment and Depreciation and Amortization Policies.

Property, plant and equipment at April 30, 1954 is summarized by major classifications as follows:

	April 30, 1954
Land	\$ 5,067,105
Land improvements	1,405,557
Buildings and building improvements.....	29,574,787
Building equipment	5,842,146
Machinery, equipment and service vehicles.....	15,922,044
Leasehold improvements	100,363
Furniture and fixtures.....	1,152,450
Tools and dies.....	3,715,325
	<hr/>
	\$62,779,777
Less accumulated depreciation.....	24,162,197
	<hr/>
Total.....	\$38,617,580

The policy of the companies has been to provide for depreciation of property, plant and equipment by charges to operations (computed by the straight-line method for the Company and by the declining-balance method for the subsidiary) at annual rates which are sufficient to amortize the gross carrying amounts of the depreciable assets within the estimated useful lives of the various classes of assets.

The range of annual rates used in computing depreciation with respect to ordinary facilities is as follows:

	Rate
Buildings	2½%
Land and building improvements.....	5 to 10
Machinery and equipment.....	8
Office furniture and fixtures.....	10 to 15
Yard facilities	10
Special facilities	25
Special improvements	33⅓
Service and traffic vehicles.....	10 to 33⅓

The portions of the costs of assets which are subject to special amortization as emergency facilities under the defense-production program amounting to approximately \$12,324,897 at April 30, 1954 have been separately classified and are being amortized over periods of sixty months from date of acquisition or completion of the facilities. The remaining portions of the costs, which are not subject to special amortization, are being amortized by provisions for depreciation at the appropriate annual rates described above. Reference is made to Packard's modernization program described under "HISTORY, BUSINESS AND PROPERTIES OF PACKARD": "Current Developments", in the foregoing Proxy Statement.

Expenditures for maintenance and repairs have been charged against operations. Expenditures for betterments and major renewals have been capitalized.

Expenditures for tools, dies and patterns have been amortized and charged to expense over their estimated productive lives.

The carrying amounts of assets sold or retired, and the related allowances for depreciation, have been eliminated from the accounts in the month of disposal in the case of sales and at the year end in the case of retirements, and the resulting gains or losses have been reflected in operations.

The costs of leasehold improvements have been amortized ratably over the terms of the respective leases.

Ordinary patent costs and expenses are charged to operations as incurred. Such expenditures for the years ended December 31, 1951, 1952 and 1953 and for the four months ended April 30, 1954 were not material in amount.

Note 7—*Supplementary Profit and Loss Information*—Four Months ended April 30, 1954 and Three Years ended December 31, 1953.

	Four Months Ended April 30, 1954			Year Ended December 31, 1953			Year Ended December 31, 1952			Year Ended December 31, 1951		
	Charged Directly to Profit and Loss			Charged Directly to Profit and Loss			Charged Directly to Profit and Loss			Charged Directly to Profit and Loss		
	To Cost or Operating Expenses	Other	Total	To Cost or Operating Expenses	Other	Total	To Cost or Operating Expenses	Other	Total	To Cost or Operating Expenses	Other	Total
Maintenance and repairs.....	\$ 687,449	\$ 54,788	\$ 742,237	\$ 4,626,193	\$ 300,254	\$ 4,926,447	\$ 5,525,703	\$ 440,183	\$ 5,965,886	\$ 3,864,097	\$ 162,337	\$ 4,026,434
Depreciation and amortization of prop- erty, plant and equipment.....	\$1,694,365	\$207,503	\$1,901,868	\$4,631,436	\$483,814	\$5,115,250	\$3,863,737	\$426,647	\$4,290,384	\$2,606,838	\$385,513	\$ 2,992,351
Amortization of tools, dies and patterns	1,759,885	—	1,759,885	3,514,450	—	3,514,450	1,366,812	—	1,366,812	7,192,920	—	7,192,920
Total depreciation and amor- tization	\$3,454,250	\$207,503	\$3,661,753	\$8,145,886	\$483,814	\$8,629,700	\$5,230,549	\$426,647	\$5,657,196	\$9,799,758	\$385,513	\$10,185,271
Taxes (other than income taxes) Note A:												
Payroll taxes	\$ 342,324	\$ 81,549	\$ 423,873	\$2,624,797	\$264,834	\$2,889,631	\$1,665,855	\$214,247	\$1,880,102	\$1,299,123	\$198,561	\$ 1,497,684
Real estate and personal property taxes	689,273	119,528	808,801	1,851,164	338,010	2,189,174	1,517,314	301,972	1,819,286	1,532,801	299,842	1,832,643
Corporate franchise and miscellaneous taxes	85,000	32,505	117,505	180,612	209,705	390,317	225,969	235,384	461,353	183,422	209,447	392,869
Total taxes	\$1,116,597	\$233,582	\$1,350,179	\$4,656,573	\$812,549	\$5,469,122	\$3,409,138	\$751,603	\$4,160,741	\$3,015,346	\$707,850	\$ 3,723,196
Management and service contract fees	—	—	—	—	—	—	—	—	—	—	—	—
Rents and royalties.....	\$ 1,169	\$ 87,746	\$ 88,915	\$ 12,064	\$241,581	\$ 253,645	\$ 19,604	\$373,898	\$ 393,502	\$ 46,852	\$326,509	\$ 373,361

Note A—Taxes which were not charged to costs or expenses on the corporations' books, such as excise or retail sales taxes assessed by the federal government and various states, are not included in this classification.

Note 8—The Company believes that all adjustments necessary to state fairly the results of operations for the four months ended April 30, 1954 have been reflected in the consolidated income statement for such period and that the loss reported has been determined in conformity with accounting principles applied in earlier accounting periods.

STUDEBAKER-PACKARD CORPORATION

PRO FORMA CONSOLIDATED BALANCE SHEET

April 30, 1954 (Unaudited)

ASSETS

Cash on hand and on deposit.....		\$ 34,114,434
U. S. Government (\$1,184,095) and short-term marketable securities at cost and accrued interest, not over market.....		4,457,842
Sight drafts outstanding.....		2,805,304
Accounts receivable from United States Government.....		9,395,482
Accounts, acceptances and notes receivable (less reserves of \$280,129).....		9,433,408
Unbilled costs under contracts with U. S. Government.....		7,370,894
Recoverable portion of federal and foreign taxes paid on income of prior years.....		1,896,533
Inventories (Note 2).....		81,646,626
Prepaid expenses.....		2,297,723
Total current assets.....		\$153,418,246
Non-current investments and receivables.....		3,070,605
Property, plant and equipment (including land \$6,382,764) (Note 3).....	\$156,439,962	
Less: Reserves for depreciation and amortization.....	58,239,586	98,200,376
		<u>\$254,689,227</u>

LIABILITIES, CAPITAL STOCK AND SURPLUS

3 $\frac{1}{8}$ % Sinking Fund Debentures payable within one year.....	\$ 750,000
Accounts payable and accrued charges.....	52,824,521
Price redetermination refund payable to U. S. Government.....	3,925,953
Federal and foreign taxes on income.....	7,835,781
Provision for product warranty on automobiles and under Government contracts.....	1,055,992
Total current liabilities.....	\$ 66,392,247
3 $\frac{1}{8}$ % Sinking Fund Debentures Due December 1, 1966.....	6,750,000
Capital Stock and Surplus:	
Common stock, par value \$10 (Note 4)	
Authorized, 15,000,000 shares	
Issued 6,542,187 shares.....	\$ 65,421,870
Earned Surplus (Notes 5, 6 and 7).....	118,572,562
	<u>\$183,994,432</u>
Less: 101,732 shares in treasury, at cost.....	2,447,452
Total Capital Stock and Surplus.....	181,546,980
	<u>\$254,689,227</u>

(See notes to pro forma consolidated balance sheet.)

STUDEBAKER-PACKARD CORPORATION

NOTES TO PRO FORMA CONSOLIDATED BALANCE SHEET

NOTE 1: This pro forma balance sheet has been prepared from the foregoing unaudited statements of Studebaker and Packard.

NOTE 2: Inventories of Studebaker, in the amount of \$53,096,112, are stated at cost which, in the aggregate, is lower than replacement market prices and after reserves of \$2,326,678. Inventories of Packard, in the amount of \$28,550,514, are stated at the lower of cost or market.

NOTE 3: Properties of Studebaker are stated at appraised values as at March 8, 1935, with subsequent additions at cost and after amortization taken on tools, dies, jigs and fixtures which are peculiar to particular models. Properties of Packard are stated at cost and include assets having a value of \$12,324,897 subject to five year amortization.

An analysis of the properties and reserves for depreciation of the two companies follows:

	Studebaker	Packard	Combined
Land	\$ 1,315,659	\$ 5,067,105	\$ 6,382,764
Other plant	92,344,526	57,712,672	150,057,198
	<u>\$93,660,185</u>	<u>\$62,779,777</u>	<u>\$156,439,962</u>
Reserves for depreciation and amortization	34,077,389	24,162,197	58,239,586
Net values	<u>\$59,582,796</u>	<u>\$38,617,580</u>	<u>\$ 98,200,376</u>

NOTE 4: The shares of Common Stock shown as outstanding at April 30, 1954, include those heretofore issued by the two companies and also 1,371 shares estimated to be issuable hereafter in respect of securities of the predecessor corporation of Studebaker, converted on the terms described in the foregoing Proxy Statement.

NOTE 5: The Indenture under which the 3½% Sinking Fund Debentures of Studebaker are issued provides that Studebaker shall not, after December 31, 1946, pay dividends on its common stock (other than in stock) or apply funds to the purchase thereof in excess of consolidated net profits subsequent to that date, plus \$1,500,000, or in any case, where such a dividend or purchase would reduce consolidated working capital below \$18,750,000 or 125% of consolidated funded debt. \$18,619,940 of the surplus of The Studebaker Corporation was so restricted at April 30, 1954.

NOTE 6: The profits of Studebaker for 1951, 1952 and 1953 and the four months ended April 30, 1954, as well as the profits of Packard for 1952 and 1953 and the four months ended April 30, 1954, are subject to adjustments on account of renegotiation of Government contracts. However, it is not expected that such renegotiation will affect materially the pro forma balance sheet as presented.

NOTE 7: For purposes of the pro forma balance sheet, the reserve of \$1,836,019 for loss on demolition, disposal and change in use of property and facilities, and carrying charges on property held for sale, and the amount of \$1 shown for Trade Name, Good Will and Patent Rights, shown on the consolidated balance sheet of The Studebaker Corporation and Subsidiary Companies, as of April 30, 1954, have been eliminated. The afore-mentioned reserve is no longer required.

The surplus shown on the pro forma balance sheet, all of which is considered earned surplus, was computed as follows:

Packard Common Stock	\$ 30,000,000
Capital in excess of stated value of common stock	12,016,721
Net income retained since May 1, 1935, for use in the business	42,320,062
	<u>\$ 84,336,783</u>
Studebaker Common Stock	2,361,458
Capital Surplus	18,344,852
Earned Surplus	77,115,321
	<u>\$182,158,414</u>
Plus Studebaker reserve for loss on demolition, etc. and less \$1 for Trade Name, etc.	1,836,018
	<u>\$183,994,432</u>
Less Studebaker-Packard Common Stock	65,421,870
Earned Surplus	<u>\$118,572,562</u>

It has not yet been determined the extent to which the earned surplus will be available for the payment of dividends by Studebaker-Packard.